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LINKING SHAREHOLDER VALUE CREATION TO MARKETING EQUITY: THE VIRTUOUS CIRCLE OF MARKETING INVESTMENTS

Introduction

Marketing has been defined by Kotler as "a management orientation that holds that the key task of the organization is *to determine the needs, wants, and values of a target market* [*emphasis added*] and to adapt the organization to delivering the desired satisfactions more effectively and efficiently than its competitors"[1]. After three decades, Doyle defined marketing as "the management process that seeks *to maximize returns to shareholders* [*emphasis added*] by developing and implementing strategies that build relationships of trust with high-value customers and to create a sustainable differential advantage"[2]. Over the last decades, both academics and practitioners have shown an increasing interest in the conceptualization and assessment of marketing productivity. Previous researches on this topic have been criticized for their focus on the *short term*, the dependence of perceived productivity on the set of *intermediate* marketing performance indicators, and the lack of attention to *shareholder value* creation[3]. Bonoma and Clark state that "perhaps no other concept in marketing's short history has proven as stubbornly resistant to conceptualization, definition or application as that of marketing performance"[4]. In recent years, in fact, the number one research priority[5] for Marketing Science Institute, and in particular for the marketing productivity community[6], has related to *marketing metrics*, the measurement of the impact of marketing, and marketing productivity[7]. Serious concerns about marketing's strategic role, and even its identity and organizational impact, have been expressed by academics[8]. Therefore, one of the most critical topics raised by marketing academics and practitioners is the issue of demonstrating the *financial consequences* of marketing investments.

In order to maximize the productivity of marketing activities, managers need to link nonfinancial measures - such as perceived quality, customer satisfaction, and brand loyalty - to the financial outcomes generally used by CEOs and CFOs, gatekeepers of the budget[9]. Typical marketing metrics include, for example: market share, perceived quality, awareness, preference, purchase intent, customer satisfaction, and customer loyalty. These measures reflect the *intermediate* impact

[1] Kotler P., 1976, p.14.
[2] Doyle P., 2001, p.70.
[3] See: Ambler T., Puntoni S., 2001, pp. 1-39.
[4] Bonoma, T. and B. Clark, 1988, p.1.
[5] It includes topics identified by MSI member companies and academic trustees as being sufficiently important that they deserve intensive research attention.
[6] It includes many from companies with well-known brands.
[7] These topics include, for example: assessing the impact of marketing programs on financial metrics, assessing marketing program productivity, and linking intermediate marketing program outcomes to external financial metrics.
[8] See, for example: Day G.S., Montgomery D.B., 1999; Srivastava R.K., Shervani T.A., Fahey L., 1998; Varadarajan P.R., Jayachandran S., 1999; Doyle P., 2000.
[9] Srivastava R.K. and Reibstein D.J., 2004.

(at customer level) of marketing actions, but not their *final* (i.e. financial) impact (at the firm level) through hard-core financial concepts, such as a company's stock price and market capitalization.

On the other hand, accounting numbers and ratios do not capture *intangible marketing assets* - such as brand equity and closer customer relationships - because these assets are not reported in balance sheets, but they make up the majority of firms' value[10]. Today intangible assets and marketing capabilities, rather then tangible assets and production capabilities, are essential for firms' survival[11]. We define these intangible assets as a firm's **marketing equity**.

In this paper we conceptualize a *dynamic[12] marketing-based theory of competition*, highlighting a *chain of effects model* that proposes, in *dynamic markets*[13], the firm's success (*competitive advantage or shareholder value*)[14] depends on several *marketing-based capabilities*[15]. The issue of shareholder value creation via marketing activities is an important agenda for marketing managers, corporate executives and academics. To date, in fact, marketing scholars have not developed yet a dynamic theory of competition able to adequately explain the connections between *shareholder value drivers* (such as cash flow enhancement and risk reduction[16]) and *leading marketing indicators of value* (such as customer satisfaction, market share and customer loyalty). Therefore, we propose a conceptual framework, which builds on product life-cycle logic, conceptualizing different dimensions of marketing capabilities and performance related to the firm's response to environmental changes (in customers and competitors behaviour). Building on the seminal papers by Srivastava et al.[17] and merging Porter's analysis[18] with resource-based theories[19], strategic arguments concerning the achievement of a sustainable competitive advantage are integrated with financial tools - the shareholder value approach[20] and the real option theory[21] - and with marketing management concepts and scholarship. Implications for marketing managers, corporate senior managers and scholars are discussed, suggesting areas for further research on the topic.

1. Marketing performance assessment: literature review

Traditionally, *business performance* has been measured from the information provided by accounting systems. Early studies on firm-level measurement of *marketing performance* focused on accounting measures too, such as profit and sales[22]. ROI has been used to evaluate advertising efficiency[23] and more general marketing expenditures[24]. **Accounting measures** has been chosen because they are mostly objective measures of performance as they are collected by a structured system of financial bookkeeping. Moreover, these measures are stated in a single monetary dimension, permitting management to compare performance of different business units or different product/market combinations. Performance measures can be distinguished in *forward-looking* and *retrospective measures*. Accounting ratios (e.g., ROI and ROE) are *retrospective measures* and their use is controversial in the context of marketing productivity. Marketing investments, in fact, play

[10] See, for example: Srivastava R. K, McInish T., Wood R., and Capraro A. 1997; Lane V. and Jacobson R., 1995; Aaker D. and Jacobsen R., 1994.
[11] Doyle P., 2000.
[12] Porter M. E., 1991; D'Aveni R., 1994; Hunt S. D. and Morgan R. M., 1995; Warren K., 2002.
[13] Teece D.J., Pisano G., Shuen A., 1997.
[14] Rappaport A., 1998.
[15] Day, G. S., 1994.
[16] Srivastava R., Shervani T. and Fahey L., 1997.
[17] Srivastava R., Shervani T. and Fahey L., 1997, 1998 , 1999.
[18] Porter M. E., 1980, 1985
[19] Barney J., 1991; Peteraf M. A., 1993; Grant R.M., 1991; Grant R.M. 1996; Prahalad C.K.and Hamel G., 1990.
[20] Black A, Wright P, Davis J. 2001; Copeland T, Koller T, Murrin J. 2000.
[21] Luehrman T. 1998; Black, F. and Scholes, M., 1972.
[22] See, for example: Feder, R. A., 1965; Sevin, C., 1965.
[23] Dhalla N. K., 1978.
[24] Kirplani V.H. and Shapiro S.S., 1973.

out over the long term, while accounting measures do not consider the *future impacts* of current assets[25]; they stress mostly *short term* results, leading to excessive short term orientation of managers and giving little indication of the firm's performance potential in the future. In other words, these measures do not reflect the importance of *growth expectations* and fails to measure changes in firms' *economic value*[26]. The correct usage of ROI in marketing requires an analysis of future cash flows[27]. Earnings calculation, in fact, does not include investments in *working capital* (accounts receivable, inventory investment, and accounts payable) and *fixed capital* (depreciation) needed to sustain the firm growth; therefore it does not incorporate the concepts of (business and financial) *risk* and *value for money*[28]. Moreover, earnings may be computed using *several accounting methods*; accounting measures are easily susceptible to *changes in accounting principles* and can *easily be manipulated* by business unit managers. In short, "cash is a fact, profit is an opinion"[29]. In turn, *the firm's marketing intangible assets are at risk* when its investments decisions are based on short-term accounting indicators. Marketing intangible assets are not captured by financial accounting: they do not appear on the firm's balance sheet and partially emerge as "goodwill"[30]. Despite these assets have a long-term value, *marketing costs* needed to build marketing intangible assets are considered "expensed", not "investments"[31], must be justified in the short run and cannot be depreciated over time. Therefore, accounting approaches allow managers to make decisions that could *erode marketing intangible assets value* and hence the value of the firm, reducing marketing investments for boosting short term earnings[32]. All these problems make *goal setting and performance assessment precarious*, generating loss of credibility on accounting measures and resultant decisions[33]. In short, *accounting profits and earnings are not useful approaches to evaluate marketing performance*.

Perceived quality, customer satisfaction and customer loyalty are examples of **intermediate nonfinancial performance measures**. These measures, based on qualitative methods (such as free associations and projective techniques), are worthy metrics and all have the potential to *better support management*. They are *extensively used* by marketing managers[34] and recommended by academics[35] in the belief that they *ultimately* affect the long-term firm's profitability. Several nonfinancial methods have been suggested for the measurement of brand equity and other marketing intangible assets. The same concept of brand equity was developed in the late 1980s in response to the short-termism of financial measures[36], and Keller developed the concept of "customer-based brand equity"[37] to include a combination of behavioural and attitudinal dimensions. Although the performance measurement problem of marketing intangible assets seems conceptually solved by including intermediate nonfinancial performance indicators, it has been argued that these metrics cannot validly be reduced to a single number[38]. In other words, *it is not possible to quantify how nonfinancial performance do contribute to the bottom line*, because they do not reflect the financial impact on the firm through hard-core financial concepts. In short, despite the importance of these measures is widely acknowledged, lack of evaluating financial consequences can limit their relevance because *today the language of the board is finance*[39].

[25] See, for example: Ambler T., 2003, p. 55.
[26] Rappaport A., 1998.
[27] See, for example: Rust R. T., Zahorik A., and Keiningham T. L., 1995.
[28] Rappaport A., 1998.
[29] Rappaport A., 1998, p.15.
[30] Guilding C. and Pike R., 1990.
[31] Day G.S., and Fahey. L., 1988.
[32] Lukas B.A., Whitwell G.J., Doyle P., 2005.
[33] Rappaport A., 1998.
[34] McKinnon S.M. and Bruns W.J. Jr., 1992.
[35] See, for example: Venkatraman N. and Ramanujam V., 1986; Ambler T., 2003; Ittner, C. D. and Larker D. F., 2003.
[36] Barwise P., 1993.
[37] Keller, K.L., 1993.
[38] Barwise P., 1993; Ambler T, 2003.
[39] Lukas B.A., Whitwell G.J., Doyle P., 2005.

Nevertheless, all these measures *can be useful leading indicators of value*[40]: managers need leading indicators of value because the long-term impact of a strategy can be adequately measured by a financial metric after some time has passed. Literature suggests, in fact, that an adequate *combination of financial and non-financial measures* performs best in predicting financial performance in the short and longer term[41]. Unfortunately *literature does not highlight the connections between leading indicators of value and shareholder value drivers*. Tobin's q, the ratio of the market value of the firm to the replacement cost of the firm's assets, is a powerful metric for intangible assets evaluation, but replacement costs are difficult to calculate; intangible assets' value is generally evaluated in terms of market-to-book ratio, which gives almost equivalent signals about value creation[42]. Despite these technical problems, Tobin's q has been recently utilized in marketing research, for example, for estimating brand equity[43] or valuing branding strategies[44], but unfortunately studies examining the long-term impact of marketing investments are rare. Relevant exceptions[45] to this lack of integration between intermediate performance indicators and firm's value relate perceived quality *or* customer satisfaction *or* brand equity to market capitalization, but *they do not discuss the entire chain of effects of marketing productivity*. Customer satisfaction, for example, may be influenced by perceived quality and may influence brand equity, but these *connections among nonfinancial measures* do not emerge in literature. Finally, *there are several different ways to measure nonfinancial performance*.

The **integrated use of both financial and nonfinancial indicators** for evaluating firm's performance has been popularized in strategic management literature with the concept of *Balanced Scorecard* (hereafter, BS) proposed by Kaplan and Norton[46]. BS is a strategic management system which *describes* the process for transforming intangible assets into tangible outcomes conceptualizing a tool for managing strategy in the knowledge economy. This model focuses on describing the firm's activities as a chain of effects which aims to close the gap between customers' needs and the firm's financial results. The sequence is as follows: *customers* have first priority, secondly come the *internal processes* and lastly *learning and growth*; this sequence generates *financial outcomes*. Jensen[47] argues that since BS can be conceptualized as a "managerial equivalent of stakeholder theory", it is *a dashboard*, not a scorecard, because it gives manager multiple useful measures about the business, but it *does not* provide the firm of *a score* for its performance. Put it differently, to be a scorecard, it should show a baseline and then the incremental impact of the performance drivers on financial results, making explicit the sequence of *cause and effect relationships* between outcome measures and the performance drivers of that measures. BS has not been applied to marketing, but other dashboard approaches have been proposed[48]. Both *balanced scorecards and marketing dashboards are powerful tools for managerial control, but they do not solve the problem of integration between intermediate performance indicators and firm's value*. In the BS model, in fact, financial and intermediate metrics are *isolated, quantitatively linked neither among themselves nor with the firm's value*[49]; whereas marketing dashboards leave marketing managers' *practical sense* in charge of choosing a limited set of metrics for understanding the efficiency of their tactics, not providing a tool for evaluating final (i.e. financial) impact at the firm level through hard-core financial concepts, such as a company's stock price and market capitalization.

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[40] Rappaport A., 1998, p. 129
[41] See, for example: Behn B. K., and Riley R.A., 1999.
[42] Day G.S., and Fahey. L., 1988.
[43] Simon C. J., and Sullivan M., 1993.
[44] Vithala R. R., Agarwal M. K., and Dahlhoff D., 2004.
[45] See, for example: Aaker D. and Jacobson R., 1994; Anderson E. M., Fornell C., and Lehmann. D. R., 1994; Lane V. and Jacobsen R., 1995; Narver, J.C. and Slater, S.F., 1990; Rust R. T., Zahorik A., and Keiningham T. L., 1995.
[46] Kaplan R. S., and Norton D. P., 1992.
[47] Jensen M. C., 2001.
[48] See, for example: Srivastava R., Reibstein D. J., 2004; McGovern et al. 2004.
[49] Strack R., Villis U., 2002, pp. 147-158.

Today major business firms almost universally accept that the primary goal of management is to *maximise shareholder value*[50]. Rappaport[51] has argued that the market value of a firm[52] is its *net present value*, that is the sum of all future cash flow streams expected to accrue to the firm, discounted by the opportunity cost of capital. Therefore, shareholder value framework can be broadly defined as the way of analyzing how business decisions and actions affect the firm's *economic value*. According to **Shareholder Value Approach** (hereafter, SVA), shareholders[53] are the owners of the firm and, from their perspective, managers are agents acting on their behalf. Thus managers must create value for shareholders implementing strategic decisions which generate a stream of cash flows over a number of years. *Cash flows* determine how much is available to pay shareholders and debtors; therefore, it is what is *left over* for investors after all the bills have been paid. Particular attention is paid to *long-term cash flows*, because *investors have a long-term perspective*. Therefore, *shareholder value is mostly based on expectations of future performance*. In other words, unlike ROI or EVA[54], *shareholder value added* is a powerful long-term forward-looking measure of productivity. Shareholders are mostly interested in what it is expected to happen - *future* cash flow the firm is expected to generate over an *average return* by existing *and new* products and services *in the years to come* - rather than what has happened yet - *past* cash generated by previous and existing products and services in the last years[55].

We will sketch SVA's principal features in outline, referring further in-depth analysis to financial literature[56]. In short, value is created when expected sales exceed all costs, including capital costs; hence, shareholder value is based on *two premises*:

a) economic value is created when the business earns a return on investment that exceeds its cost of capital; and

b) executives evaluate business strategies in the same way that investors do[57].

In turn, despite the multitude of different metrics, according to SVA, the value of the firm is increased when managers make decisions that increase the discounted value of all future cash flows the firm is expected to generate[58]. Shareholder value has *three components*[59]:

1) *the present value* of cash flows (discounted cash flow) during the *planning horizon*;

2) a *residual value*, that is the present value of the cash flows that occur after the end of the planning period; less

3) *the market value of the debt* assigned to the firm.

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[50] Black A, Wright P, Davis J., 2001.

[51] Rappaport A., 1998.

[52] Since Shareholder Value Approach can be applied for measuring a firm's value as well as the value of a Strategic Business Unit (hereafter, SBU or business) or an investment, hereafter we will refer to firms, businesses and investments but implications and tools we will discuss are mostly interchangeable among these three.

[53] We will use the terms shareholders and investors as interchangeable, but obviously shareholders of a firm are its owners, whereas investors may be actual shareholders as well as potential shareholders of the firm.

[54] Rappaport A., 1998.

[55] For example, brand-building advertising investments are discouraged in accounting frameworks because they reduce short-term profits, while SVA considers all investments and all costs identically as outflow, at the time they are paid; in turn, both marketing and shareholder value are future-oriented and forward-looking. See: Lucas et al., 2005.

[56] See, for example: Black A, Wright P, Davis J., 2001; Copeland T, Koller T, Murrin J., 2000.

[57] Rappaport 1998.

[58] *Shareholder return* is generated by net cash flows, namely *dividends* (Div) and capital gains that is increases in *share price* (P):

$$P_0 = \sum_{0}^{t} \frac{Div^t}{(1+r)^t} + \frac{P^t}{(1+r)^t}$$

Cash flows are discounted respect a *cost of equity* (r) which reflects *investors' expectations of an average return*: it is called the *opportunity cost of capital*, that is the return investors could obtain if they invest elsewhere in firms of similar risk. In turn, unlike accounting measures which ignore the time value of money, SVA seeks to estimate the economic value of a firm's investments, recognizing that money has a time value: *money today is worth more to investors than money tomorrow*.

[59] Day G.S. and Fahey. L., 1988.

2. Extending Shareholder Value Framework

Shareholder value creation, *stakeholder wealth* and the achievement of *sustainable competitive advantage* all rely on *management's ability* to convert competitive dynamics into sustainable cash flows[60]. At the heart of shareholder value creation is, in fact, the concept of competitive advantage[61], that is the value a firm is able to create for its customers that exceeds its cost of creating it[62], including the cost of capital. *But only investors who anticipate a firm's corporate return[63] before it is fully incorporated in the stock price will earn superior returns (shareholder return)*; otherwise, an equity investor should expect to earn no more than an *average return*[64]. In other words, e*xpectations* play a fundamental role in shareholder value creation, because a large proportion of the value of firms (investments in intangible assets) is based on perceived growth potential and on its related risk, that is the risk of depreciation of that intangibles. Therefore, Rappaport[65] emphasizes the importance for firms of interpreting market signals, so that management can compare its own plans or expectations with the market's ones.

Shareholder value creation is a function of the implementation of *dynamic and growth-oriented strategies*[66]. Moreover, we argue its conceptualization requires the development of a *dynamic marketing-based theory of competition*, able to explain the firm's response to the evolution of the market and business environment[67]. Therefore, we state that a proper *application* of the shareholder value approach needs further in-depth analysis based on a) *strategic arguments* concerning the achievement of a sustainable competitive advantage and on b) *marketing concepts and tools*. Both, shareholder value and competitive advantage, in fact, are based on the premise that *economic value* is created when a firm earns a return on investment that exceeds its cost of capital. This will occur when the firm's products or services have a cost or differentiation advantage for its customers. Without a differential advantage, in fact, economic theory shows that competition will drive profits down to the cost of capital. Moreover, *creating economic value requires the firm performs marketing activities* in order to:

- build a reason why customers should consistently prefer to buy from the firm rather than competitors (gaining a positional and a market-place advantage);
- allow the firm to earn a profit rate higher than the average for its business (achieving a competitive advantage);
- earn a return on investment that exceeds its cost of capital (creating shareholder value);
- invest in new marketing activities for satisfying new customer needs (gaining a new positional and market-place advantage).

Shareholder value analysis and financial literature provide powerful *tools* (*value drivers*) for estimating the value added from any given strategy, but they *do not say how* it is possible to manage those drivers in order to create positive cash flows. In short, financial literature is able to explain *just the denominator in the shareholder value formula* (utilizing the CAPM[68] to represent the risk construct), and *for strategic analysis it could be wrong too*[69].

[60] Rappaport A., 1992, 1998.
[61] Day G.S. and Fahey. L., 1988.
[62] Porter M.E., 1985, p.3.
[63] It is the firm's ability to invest at above the cost of capital.
[64] Rappaport A., 1998.
[65] Rappaport A., 1998, p. 101.
[66] Barwise P. , Marsh P., and Winsley R., 1989.
[67] In other words, the firm's ability to sustain a competitive advantage.
[68] Fama E.F., 1970.
[69] See, for example: Bettis R., 1983; Dickson P., 1986.

2.1 Capabilities as real options

Traditional shareholder value framework does not include *real options* (hereafter, *RO*), as future growth options[70], but these *RO* exist because the opportunities created by the firm's strategic investments leveraging its *organizational capabilities*[71] to exploit current assets as well as to explore future opportunities[72]. Myers[73] has recommended the application of the *RO* theory to the valuation of *intangible assets*, in particular for R&D. He has argued Discounted Cash Flow (hereafter, DCF) methods are unsuitable because the value of R&D is almost all option value. The same managers know that DCF methods are inadequate for analyzing innovative strategies[74]. Amram and Kulatilaka[75] argue that *RO* exist in almost every business decision and distinguish seven types of *RO* [76], concluding that *RO* approach is able to drive managers along the business decisions "cone of uncertainty".

Indeed, in *dynamic markets* - where "hypercompetition"[77] involves continuously aggressive behaviour by firms in order to generate new competitive advantages and destroying other firms' competitive advantages - or for research projects (R&D or new product/market solutions) valuation purposes, estimating future cash flows is too hard; therefore, *uncertainty entails higher discount rates*, making the investment unprofitable in a traditional DCF framework. In these cases *RO* analysis is a good complement to, not a substitute for, DCF analysis, because over time "increasing certainty pushes up DCF value, through lower discount rates"[78]. More precisely, Luehrman[79] argues that Net Present Value and option pricing diverge *when investment decisions may be deferred*: a research project involves an initial investment and successive other investments, and *during this time the world changes*. Therefore, traditional DCF methods do not include *the extra value associated with deferral*, while option pricing provides a tool to quantify the value of deferring. In other words, *RO* techniques can augment valuation[80].

Kogut and Kulatilaka[81] propose an heuristic framework useful for conceptualizing *capabilities as real options,* arguing that the concepts of *core competencies*[82] and *white spaces*[83] permit to analyze investments in *exploration activities* as the basis of future marketplace opportunities[84].

To put it differently, the concept of *RO* is implicit in that of *valuable competence*: scarcity of resources does not entail, by itself, that a resource is valuable; resources must be reconfigured through competencies, and these are worth if permit to achieve a *sustainable* competitive advantage. In short, the knowledge deriving from a competence must be valuable for future applications too[85]. In conclusion, *financial value drivers* must be connected to appropriate *leading indicators of value* able to measure *all* (actual and future) firm's *organizational capabilities* and *intangible assets* which create value.

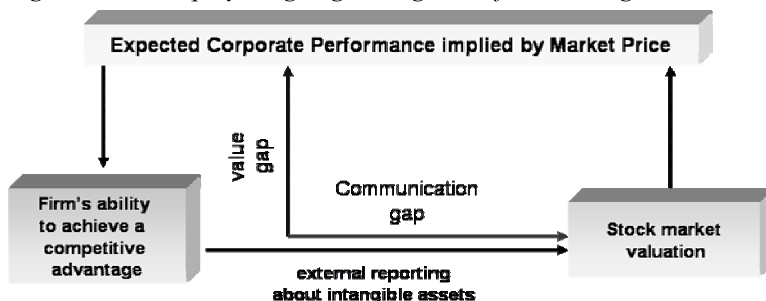
[70] Day G.S., and Fahey. L., 1988.
[71] Baldwin C. Y., Clark K.B., 1994, p.74.
[72] Kogut B., Kulatilaka N., 2001, p. 756.
[73] Myers S.C., 1984.
[74] Day G. S. and Fahey L., 1990, p.157.
[75] Amram M. and Kulatilaka N., 1999.
[76] These are: timing, growth, staging, exit, flexibility, operating, and learning options.
[77] D'Aveni R., 1994.
[78] van Putten A. B. and MazMillan L. C, 2004, p.136.
[79] Luehrman T., 1998.
[80] Following Black and Scholes' (1972) key drivers of value for financial options, Luehrman (1998) individuates five key drivers of value for real options: the *time value of money* (risk-free rate of return), the *length of time* the decision may be deferred (time to expiration), the *present value of the project* (stock price), the *expenditure required to acquire the project asset* (exercise price) and the *riskiness of the project* assets (volatility or variance of return's on stock).
[81] Kogut B. and Kulatilaka N., 2001.
[82] Prahalad C.K.and Hamel G., 1990.
[83] Hamel G. and. Prahalad C.K., 1994.
[84] For example, an investment in a developing country may reduce actual cash flows but it could provide the firm learning of the environment, that is the capability to expand later. See: Kogut B. and Kulatilaka N., 2001, p. 745.
[85] Kogut B. and Kulatilaka N., 2001, p. 747.

2.2 Trust equity is an intangible marketing asset

Rappaport[86] argues that shareholders' information play a fundamental role in the translation of management's ability to respond to competitive dynamics into stock price value *(shareholder return)*. Since shareholders assess firms' strategies *on their information* about management ability to achieve a sustainable competitive advantage, the firm's share price reflects their evaluations of whether the current strategy of management will create value in the years to come. Several studies[87], even in marketing literature[88], concerning *stockmarket reactions to firms' investment announcements* suggest that managers should provide more *knowledge* to shareholders about the firm's (marketing) *intangible assets*. The most the firm is able to *communicate* to shareholders its ability to achieve a competitive advantage, the most the stockmarket will incorporate this ability (value) in the firm's stock price. **Shareholders' trust** towards marketing activities will lower the discount rate, allowing the firm to make further investments in intangible marketing assets and leveraging the firm's ability to achieve a competitive advantage. When the firm's ability to invest at above the cost of capital (*corporate return*) will be fully incorporated in the stock price, *shareholder return will be zero* (cost of capital), because the firm has maximized shareholder value yet[89]. In other words, the firm has achieved a competitive advantage *in shareholders' evaluations*, and *the market will have incorporated the value of all future options too*. To put it differently, we argue that competitive advantage and shareholder return *can be* two faces of the same coin, *if shareholders are treated as customers*. More precisely, the firm should adopt what we define as a **shareholder orientation** which requires, not only a shareholder value approach for valuation purposes, but also *specific marketing processes and capabilities needed to exploit intangible marketing assets creating and maintaining close trust-based relationships with its shareholders.* That means: a) interpreting stockmarket signals, and b) communicating to shareholders the firm's real options (valuable competences), satisfying their *knowledge needs* and filling the *communication gap* in order to *reduce information asymmetries*. Since information asymmetries reduce firm's profitability via cutting off marketing investments in intangible assets needed to achieve a sustainable competitive advantage, they reduce shareholder return too: it is a vicious circle. On the contrary, *reducing the communication gap* (or knowledge gap) entails a reduction of the *value gap* too, because if shareholders' knowledge about the firm's *intangible marketing assets* increases, then perceived risk go down, lowering the discount rate of investments in marketing intangibles and allowing the firm to make more investment in these assets.

We define the output of these processes as **trust equity** (Figure 1), which is a relevant marketing intangible asset. *Trust equity means aligning the achievement of a sustainable competitive advantage (strategic logic) with the creation of value for shareholders (financial logic)*: it is a virtuous circle.

Figure 1. Trust equity: aligning strategic and financial logic



Source: adapted from Rappaport, 1998, p.101

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[86] Rappaport A., 1998.
[87] See, for example: Lev, B. 2001, 2004; Amir E., Lev B., Sougiannis T., 2003.
[88] See, for example: Aaker D. and Jacobsen R., 1994; Lane V. and Jacobsen R., 1995.
[89] Rappaport A., 1998.

2.3 Residual value incorporates the value of future options

Managers involved in applying shareholder value approach normally split the estimation of the value into two components: the present value of cash flow during the planning period (generally *five years*) and the residual value, that is the present value of the cash flow that occurs over the planning period. The residual value of an investment is usually *the largest portion of the total value*[90]. Since it is often difficult, especially in *dynamic markets*, both *forecasting* and *maintaining* a competitive advantage beyond five years, managers *believe* that after five years there will be no additional shareholder value created. Therefore, they *adopt* a perpetuity approach considering an infinitely long time horizon.

We state that these a) *methods* and b) *beliefs* are *wrong*, because: a) *real option theory* provides a powerful tool for better valuing *future implications on the value of current investments*, and b) even if competition will drive down profits to a level such that new investment just earns the firm's cost of capital, this *does not* mean that there will be no additional shareholder value created. *Investments in intangible assets* procure, in fact, *valuable capabilities* which normally *do not depreciate over the planning period*.

In other words, a pitfall of shareholder value framework is that *the residual value* does not include the *growth options* created by leveraging key-intangible assets in previous five years (planning period). Therefore, it does not include a portion of marketing intangible assets and valuable capabilities which could influence *the firm's future cash flow streams through the implementation of future strategies*[91]

2.4 Sources of value: taking the Resource Based View a step further

Conceptualizing *strategy* as an art of *aligning a firm and its environment*, Porter[92] advocates the need to develop a *dynamic theory of competition*, because both the firm and environment *changes* over time. Therefore, He states a dynamic theory should: 1) describe a *chain of causality* and account a *time horizon*; 2) link *environmental circumstances* and *firm behaviour* to *market outcomes*; 3) provide the firm *not only* to choose among *well-defined options but to create new ones too*. About Resource Based View (hereafter, RBV), Porter considers the concept of *resources* a good *complement* to the concept of *activities*, but He states that RBV *is not* an alternative theory of strategy, because it *does not explain the connections between resources and capabilities* which allow the firm *to perform successfully value chain activities* in order to achieve a sustainable competitive advantage. Moreover, *RBV does not consider environmental changes in industry-related factors*[93] which may affect the value relevance of firms' tangible and intangible resources, *frustrating a resource-based advantage*.

Recent developments of RBV[94] argue that competitive advantage depends on firm's ability to adapt its specific assets to changing business environment. The difference between the traditional RBV and this new framework, that is a "dynamic RBV"[95], is that the latter is focused on the processes generating *new capabilities and new knowledge*: it is a theory in under development, and we argue that *marketing theory* plays an important role in this new framework[96]. At this purpose, we distinguish key-inputs, key-skills performing business processes, and key-outputs[97].

[90] Day G.S., and Fahey. L., 1988.
[91] For example: brand extension and cross selling.
[92] Porter M. E., 1991, p. 97.
[93] For example: changes in technology, in competitor behaviour and in customer needs.
[94] See, for example: Teece D.J., Pisano G., Shuen A., 1997; Leonard-Barton D., 1995; Helfat C.E and Peteraf M.A., 2003.
[95] Helfat C.E and Peteraf M.A., 2003.
[96] In the next sections of this paper, in fact, we will conceptualize a dynamic marketing-based theory of competition, focusing on the concepts of marketing-based capabilities and marketing value chain.
[97] In short, key-outputs to business processes in "t" stage, become key-inputs to business processes in "t+1" stage.

2.4.1 Key-inputs of processes: sources of capabilities

Both in quite stable and in high-velocity markets, "few resources begin as inherently scarce"[98], and the *first step* of the chain of effects which lead to competitive advantage is *strategy*. Therefore, brand reputation (equity), for example, is an (intermediate) *outcome*, *not a source* of competitive advantage. In other words, there must be *previous drivers*, as time to market, which have allowed the firm to gain a brand reputation through advertising investments and hence a cost advantage (reducing marketing spending in advertising) or a differentiation advantage (spending at the same rate to competitors but commanding premium prices)[99].

But why do some firms *move early*? Porter refers to "earlier managerial choices", such as positioning, "configuration of activities, and the supporting investments in assets and skills"[100].

In short, *strategy is the source of capabilities and intangible assets*.

2.4.2 Key-skills performing processes: sources of intangible assets

Dierickx and Cool[101] argue that only *internally developed resources* allow firms to reach a sustainable competitive advantage, because these resources are firm-specific and do not permit imitation by competitors. Day[102] has suggested that *capabilities* enable the *activities* in organizational processes to be carried out. Prahalad and Hamel[103] state that firms should combine their resources and skills into *core competencies*, that which a firm does distinctively well in relation to competitors. Therefore, Hunt and Morgan[104] argue that *core competencies* are intangible resources that enable the firm *to perform Porter's value chain activities*. We state that this assumption is correct under a condition set by the same Porter: if "*environment remains relatively stable*"[105].

Nevertheless, we state that *when environmental change is continuous*, competitive advantage requires "a flexible organization that learns and is able to continually redefine its strategy"[106], that is a "dynamic firm"[107]. In other words, when the environment does not remain relatively stable, *dynamic capabilities framework*[108] fits better then core competencies construct to successfully performing business processes (value chain activities), because dynamic capabilities rely on *new knowledge creation* and not on previous knowledge. Dynamic capabilities approach focuses on the firm's ability to renew its resources in line with changes in its environment, altering the resource base by creating, integrating, recombining and releasing resources[109]. In other words, *in dynamic markets*, where the "manipulation of knowledge"[110] is especially critical, dynamic capabilities are the subset of the capabilities which allow the firm to create new products and processes and respond to changing market circumstances.

Our assumptions are coherent with a recent research which shows that "in moderately dynamic markets, routines in the form of dynamic capabilities are embedded in cumulative, existing knowledge. […] In contrast, in high-velocity markets, dynamic capabilities rely extensively on new knowledge created for specific situations"[111].

In short, *dynamic capabilities performing value chain activities are the sources of intangible assets (i.e., reconfigured resources)*.

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[98] Porter M. E., 1991, p. 109.
[99] Porter M. E., 1991.
[100] Porter M. E., 1991, p. 105.
[101] Dierickx I. and Cool K., 1989.
[102] Day G. S.,1994, p.38.
[103] Prahalad C.K.and Hamel G., 1990.
[104] Hunt S. D. and Morgan R. M., 1995.
[105] Porter M. E., 1991, p.102.
[106] Porter M. E., 1991, p.110.
[107] Chandler A.D., Hagstrom J.R.P., Solvell O., 1998.
[108] Teece D.J., Pisano G., Shuen A., 1997.
[109] Teece D.J., Pisano G., Shuen A., 1997.
[110] Grant R.M. 1996.
[111] Eisenhardt K. M. and Martin J. A., 2000, p. 1116.

2.4.3 Key-outputs of processes: sources of value

The outputs of business processes are tangible (e.g., contracts) or intangible (e.g., brand equity and customer relationships) assets which Porter defines as "external to the firm"[112] and that "feed back" affecting the efficiency or effectiveness of performing business processes. In this sense, assets and capabilities are "interwoven sources of advantage"[113]; dynamic capabilities are embedded in business processes guiding the evolution of a firm's resource configuration[114]; *their value does not lie in the capabilities themselves*, but in the *resource configurations* that they create[115]. For example, intangible assets (key-outputs) developed in "t_1" stage are the first source of value (i.e., positional advantage), and become a scarce resource (a key-input) in "t_2" stage. This step requires further investments because, without reinvestment, intangible assets depreciate[116]. In other words, capability building[117] (developing) requires costs, as well as simply possessing, retaining and acquiring resources require costs[118]. For example, sustaining a market-place advantage in a dynamic market requires the firm continues investing in order to set up barriers to imitation because these are continually eroding[119].

In short, *intangible assets (i.e., reconfigured resources) are the sources of value*.

3. A dynamic marketing-based theory of competition

3.1 The Virtuous Circle of Marketing investments

No published studies in Literature have discussed the entire chain of effects from resource allocation to customer satisfaction to profitability[120]. An important step in this direction is conceptualizing *marketing productivity of a firm* in terms of *marketing key-intangible assets development*. That is its **marketing equity**, namely its **innovation equity**, its **organizational brand equity**, its **customer equity**, and its **trust equity**, in a shareholder value framework. Conceptualizing the long-term impacts of marketing investments in terms of shareholder value creation, in fact, it is possible to draw a connection between marketing strategies and financial outcomes, as described below (Figure 2).

Marketing investments (e.g., sustaining the brand) of a firm generate a stock of *innovation equity*, which includes its marketing skills and competencies and its marketing relationships[121] useful to innovate. This stock is able to create value for its customers, that is *customer brand equity*[122], so that customers change their *behaviour toward the brand*, generating another stock of potential value for the firm: *organizational brand equity*[123]. Buying repeatedly the product, customers generate *market-place performance* for the firm[124]. That means, in the long term, *customer equity*: lower costs to acquire and retain customers and lower churn rate (the rate at which a firm loses customers annually) for the firm and hence *customer profitability*[125].

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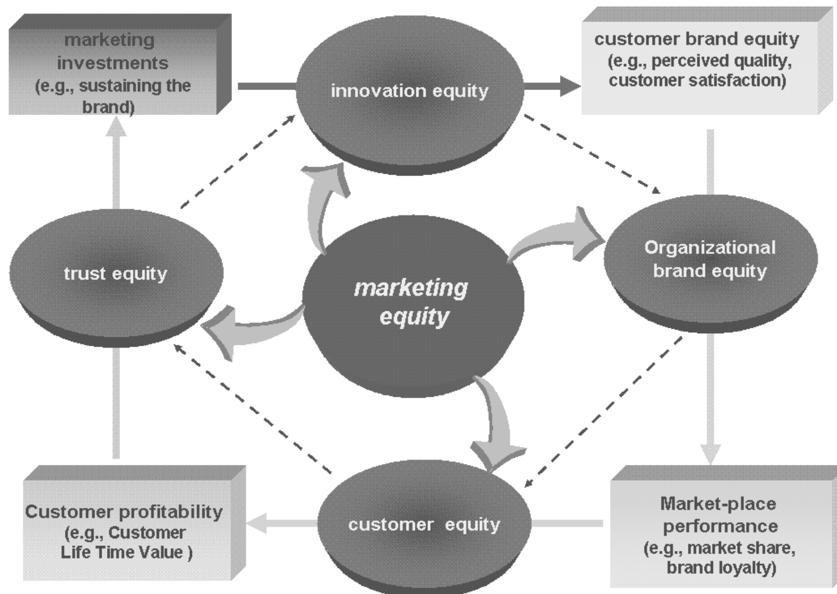
[112] Porter M. E., 1991, p. 102.
[113] Day G. S., Nedungadi P., 1994.
[114] Zott C., 2003, p.98.
[115] Eisenhardt K. M. and Martin J. A., 2000, p. 1106.
[116] Porter M. E., 1991, p. 103.
[117] Chandler A.D., Hagstrom J.R.P., Solvell O., 1998.
[118] Warren K., 2002.
[119] Day G.S. , Wensley R., 1988.
[120] Rust R.T. and Zahorik A.J., 1993.
[121] For example, with (final and intermediate) customers, suppliers, and competitors which cooperate with the firm (co-marketing activities).
[122] For example, perceived quality and customer satisfaction.
[123] The concepts of Customer Brand Equity and Organizational Brand Equity have been theorized by Capon N., Berthon P., Hulbert J.M., Pitt L.F., 2001.
[124] For example, market share and brand loyalty.
[125] For example, customer life time value.

Since knowledge deriving from intangible marketing assets is valuable for future applications too, marketing credit towards shareholders becomes *trust equity*: it means that finance makes more marketing investments. This is a *virtuous circle of marketing investments* (VCM).

Figure 2. The virtuous circle of marketing investments.



Marketing investments can also be reduced, but at the direct expense of customer satisfaction[126] (customer brand equity), limiting creativity and reducing the firm's ability to understand and respond to changes in customer needs (lowering innovation equity) and reducing, in turn, resources allocated to build sources of market-place advantage (lowering organizational brand equity). This entails higher costs to acquire and retain customers and higher churn rate (lowering customer equity), so that customer profitability decreases. Therefore, finance makes less marketing investments and Figure 2 depicts a *vicious circle* or a "death spiral"[127]. In other words, if management cuts off marketing budget, marketing key-intangible assets created in the "t" stage depreciate, because they do not become the key-inputs to business processes in "t+1" stage. In turn, cutting inputs into the marketing productivity chain can be sub-optimal for longer-term marketing performance outcomes[128].

The chain of effects model depicted in Figure 2 is a broad conceptual framework[129] which builds on Product Life Cycle model (hereafter, PLC), a traditional marketing tool which has never been developed and conceptualized into a precise theoretical framework. Porter has confined PLC use to a descriptive concept without any practical use, focusing His analysis on industry-related factors[130]. Nevertheless, Levitt has argued that a useful indicator for determining an appropriate business strategy is the stage of the PLC[131]. Moreover, the PLC concept provides a *dynamic content* to static marketing analysis such as segmentation and positioning[132]. Finally, the same customers, at an aggregate level, become *strategic assets* during specific stages of the PLC, moving progressively "from strangers, to acquaintances, to friends, to partners. This is consistent with the evolution of market growth as it relates to the diffusion of innovation within a product life cycle"[133].

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[126] Sheth J.N. and Sisodia R.S., 2002.
[127] Rust R., Zeithaml V., Lemon K., 2000.
[128] Morgan N.A., Clark B.H., Gooner R., 2002.
[129] Competition will be shown in next sections, but competitive metrics arise in all categories of the VCM model because they are usually expressed as relative measures (e.g. customer satisfaction, market share and brand loyalty).
[130] Porter M.E., 1980.
[131] Levitt T., 1965.
[132] Biggadike E. R., 1981.
[133] Johnson M.D. and Selnes F., 2004.

3.2 Marketing value chain: resources, capabilities and intangible assets

Srivastava et al.[134] propose a theoretical framework useful for linking RBV and marketing, arguing that marketing scholars have devoted little attention to apply the RBV framework and, on the other hand, RBV proponents have generally downplayed *business processes*[135] by which intellectual and relational resources are transformed into value for customers. *Distinctive marketing capabilities*, according to Day[136], are able to: a) outperform competitors; b) provide superior customer value or equal value but at lower costs; c) resist to imitation, because they are difficult to develop, embedded in business processes, not readily visible, and derive from tacit knowledge; d) be used in different ways and SBUs (core competencies). As we proposed in previous sections, the ability to gain, in dynamic markets, a sustainable competitive advantage via marketing actions depends on the firm's ability (i.e., **dynamic marketing capabilities**[137]) to implement appropriate **market-driven business processes** (activities) and developing **marketing key-intangible assets**. Processes underlie **marketing strategies**[138] and reconfigure **marketing intellectual and relational resources**.

More precisely, *marketing processes* assume different relevance during the four stages of the PLC, being strategic: a) during the *launch*[139], **product development management**; b) during the *growth,* **brand leveraging management**; c) during the *maturity*, **customer relationship management**; during the decline, **intangible assets exploitation management**[140].

Marketing capabilities needed to perform business processes, as the firm moves through the four phases of its *business life cycle*, are different too, being strategic [141]:

a) during the *launch*[142], **innovation capabilities**, e.g., strategic planning, developing new marketing solutions, launching and moving the brand through the supply chain, stimulating market acceptance (trial, adoption) of the brand through marketing programs;

b) during the *growth*, **brand-related capabilities**, e.g., differentiating brand, leveraging and defending customer brand equity, exploiting the channel, expanding the customer base targeting new customer segments;

c) during the *maturity*, **customer-focused capabilities**, e.g., identifying and selecting profitable segments among customers, ascertaining specific customer needs for that segments, creating intimate customer relationships designing and developing customized solutions, tailoring single benefits for relevant segments, exploiting selective channel for selective segments, bundling product/services increasing customer switching costs[143];

d) during the *decline*, we state the firm needs to focus on its **growth capabilities** exploiting its intangible assets, e.g., extending previous brands, leveraging the size and the quality of its customer base through cross selling, building brands around customer segments[144], liquidating brands, merging brands, selling brands and growing the core brands[145]. In other words, in this stage, the firm must *exploit its valuable capabilities* embedded in its intangible assets (real options) in order to make more marketing investments and develop new intangible assets.

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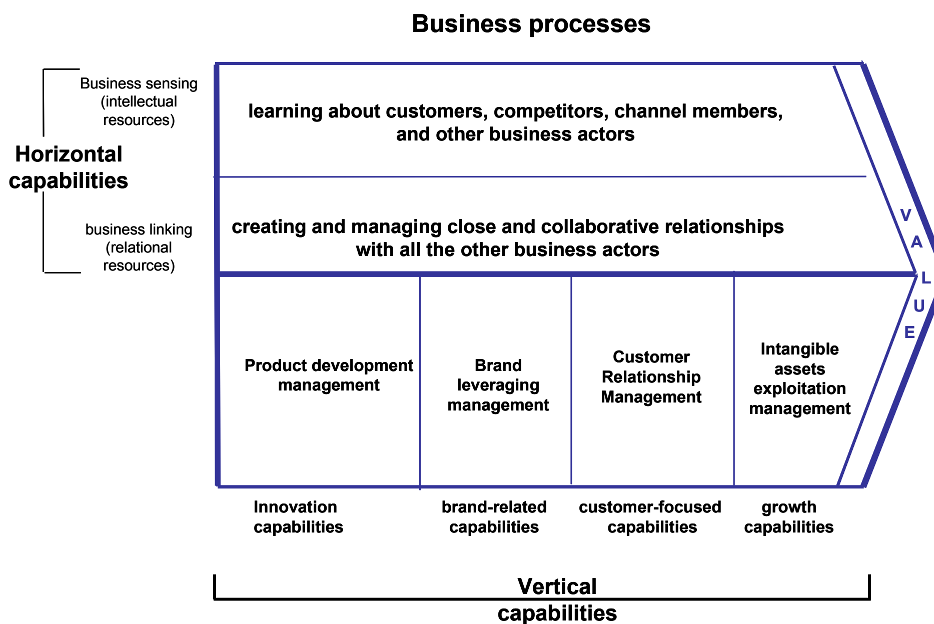
[134] Srivastava R.K., Fahey L., and Christensen H. K., 2001.
[135] For example: Supply Chain Management, Product Development Management, and Customer Relationship Management.
[136] Day G. S., 1994.
[137] Johnson M.D. and Selnes F., 2004.
[138] For example: innovation, speed to market and network building.
[139] We *include* in this stage the *pre-launch* stage too.
[140] For example: cost management, consolidation and rationalization.
[141] Dranikoff L., Koller T., and Schneider A., 2002, p.79.
[142] We *include* in this stage the *pre-launch* stage too.
[143] Srivastava R.K., Shervani T. and Fahey L., 1999.
[144] Rust R. T., Zeithaml V. A., Lemon K. N., 2004, pp. 114-115.
[145] Kumar N., 2003.

We conceptualize all these capabilities as the *vertical capabilities* of a theoretical framework that we define as **marketing value chain** (Figure 3). Moreover, some marketing capabilities are necessaries during all the PLC stages. Day argues, in fact, that market-oriented firms "have superior market sensing, customer linking, and channel bonding capabilities"[146]. The essence of *market sensing* capability is captured by Kohli and Jawaroski's[147] behavioural definition of market orientation, which includes "the ability of the firm to learn about customers, competitors, and channel members in order to continuously sense and act on events and trends in present and prospective markets"[148]. C*ustomer linking* capability is the ability of the firm to create and manage close and collaborative customer relationships. C*hannel bonding* capability refers to developing close and collaborative relationships with the major channel members. We extend these capabilities in order to include *all the actors which may influence the firm's strategies and performances in the business in which the firm competes*. Therefore, we distinguish two *horizontal capabilities*: **business sensing** (referring to intellectual resources) and **business linking** (referring to relational resources).

Figure 3. Marketing value chain



These marketing capabilities are *dynamic* because they are able to develop new **marketing knowledge**. According to Nonaka and Takeuchi's theoretical framework[149], the origin of all firm's knowledge lies in individual intuition and organizational knowledge is the knowledge shared by individuals. Following their *knowledge spiral*, four types of knowledge transfer are possible[150]. As these modes cover all the possibilities of knowledge conversion between individual and organizational knowledge, we propose that they can equally be applied to knowledge transfer among value chain activities within business processes and, in turn, between marketing activities and other business activities. This is coherent with Kohli and Jaworski's[151] construct of market orientation as composed of three sets of activities: *generating*, *disseminating* and *responding* to market intelligence.

[146] Day G. S., 1994. p.41.
[147] Kohli A. K.and Jawaroski B., 1990.
[148] Day G. S., 1994. p.43.
[149] Nonaka I. and Takeuchi H., 1995.
[150] These are: socialization (from individual tacit knowledge to group tacit knowledge), externalization (from tacit knowledge to explicit knowledge), internalization (from explicit knowledge to tacit knowledge), and combination (from separate explicit to systemic explicit knowledge).
[151] Kohli A. K. and Jawaroski B., 1990.

Moreover, Narver and Slater[152] perceive market orientation as consisting of three components: *customer orientation*, *competitor orientation* and *interfunctional coordination*. Hunt and Morgan do not include *interfunctional orientation* in their concept of marketing orientation, stating also that "if all competitors adopt a market orientation and implement it equally well, then a comparative advantage accrues none". This is *a neoclassical argument*, based on the premise that resources are worth because their scarcity. Because *information asymmetries*, not all firms adopting a market orientation will gain *the same information* about customers and competitors. *Through interfunctional orientation*, in fact, different firms will use differently their information in their specific business processes, producing different levels of knowledge and performance. Indeed, we argue that *interfunctional orientation* operates for *knowledge disseminating* purposes among business processes and actors (*business linking capability*), while *business sensing capability* operates for *learning* purposes. These capabilities assume different relevance during the four stages of the PLC, being strategic: a) during the *launch*[153], customer orientation (**exploration**); b) during the *growth*, competitor orientation; c) during the *maturity,* customer orientation (**exploitation**), and d) during the *decline*, shareholder orientation. Since organizational knowledge is hard to accumulate, not easily transferred and not consumed when in use[154], we propose that marketing knowledge can be conceptualized as embedded in the four marketing key-intangible assets described above[155].

3.3 The Competitive Advantage Life Circle: a dynamic model of competition

The VCM model (Figure 2) depicts a *dynamic competitive process*. Each of the cornerstones in the circular flow is both a premise (key-input) to achieve the following performance and a result (key-output) derived from the previous performance. The basic premise of *dynamic competition* is that variations in the response speed of customers and firms to changes in supply and demand create opportunities that can be successfully exploited by firms developing *dynamic capabilities*. Firms which can learn, develop customer solutions, and respond to environmental stimuli in order to implement successfully marketing actions (building marketing intangible assets) *faster* are *more competitive*. *Dynamic markets*, in fact, are characterized by high competitive pressure because the excess of supply in market segments that forces firms to develop dynamic capabilities in order to rapidly respond at environmental changes (customer needs and competitor actions)[156]. In other words, competition results from a *supply-demand disequilibrium*, that is a *market inefficiency*.

Market definitions are compromises between the long-run and the short run and *firms must develop different offerings*[157] *for different purposes*[158]. Therefore, *supply and demand are in a state of flux*. In other words, changes in supply generate changes in demand and vice versa, determining market disequilibrium and rent opportunities just for fast reacting, learning, developing and implementing firms. As a result, *dynamic markets are never in equilibrium*. Firms combine heterogeneous resources through business processes which involve the development of distinctive capabilities in the different stages of their products life cycles. This cumulative ability to change and successfully adapt to environmental stimuli is the source of Sustainable Competitive Advantage (hereafter, SCA).

[152] Narver, J.C. and Slater, S.F., 1990.
[153] We *include* in this stage the *pre-launch* stage too.
[154] Carmeli A. and Tishler A., 2004.
[155] These are: innovation equity, organizational brand equity, customer equity, and trust equity.
[156] A long-run view (strategic planning) requires, in fact, to account: (1) presently unserved potential profitable segments of customers, (2) changes in the competitive structure of the industry and (3) customers' time of reaction to these changes. See: Day G. S., Shoker A.D., and Srivastava R. K., 1979.
[157] With the term *offering* we mean *products and/or services*.
[158] In other words, *heterogeneity* of resources, customers' needs/wants, and suppliers' capabilities in order to satisfy customer needs/wants is always rapidly changing.

Following the sequence of conditions which in Peteraf's theoretical framework permit to the firm to achieve a SCA, and merging RBV arguments with Porter's ones and with marketing scholarship, we will describe the VCM model as a *virtuous circle of competitive advantage,* that is a *dynamic model of competition*.

1) Innovation equity dynamic. The first Peteraf's condition is *heterogeneity* in resources[159] among firms; there can be two alternative explanations to heterogeneity: a) the presence of *superior productive factors*, namely fixed or quasi-fixed factors which permit to the firm to have lower average costs then other firms (Ricardian rent): this is Porter's premise for *cost advantage strategies*; b) the presence of a market power which entails monopoly profits (monopoly rent): this is Porter's premise for *differentiation strategies*. Customers, in this stage, from "strangers" become "acquaintances"[160]. Since resources are valuable if there is a persistent *customer demand*, in other words, a *perceived unique advantage*[161], Ricardian or monopoly rents must lead the firm to a *temporary positional advantage*. In other words, heterogeneity is valuable if resources are able to create value for customers and, even if customers may admire and respect firm's capabilities, they finally demand their *outcome*, that is *value*. *Creating value* for customers means focus on innovating, producing and delivering products/services to the market[162]. These processes require a strong customer orientation in order to match customer needs through innovative products[163]. This lead to changes in customer perceptions, attitudes and behaviour, but not uniformly, because different customers respond in different ways and at different rates to a change in the supply of the firm's offering. Such customer heterogeneity in the response to changes in marketing offering leads the firm to develop capabilities in order to rapidly satisfy the most profitable *market segments* penetrating and leveraging the customer base.

2) Organizational brand equity dynamic. The second condition is what Peteraf calls "*ex post* limits to competition" (hereafter, EPL) which preserve heterogeneity and, in turn, SCA. In other words, Ricardian or monopoly rents are the source of a *temporary positional advantage*, but *heterogeneity must be durable to add value*. EPL preserve rents from Porters' substitutes, which could offer equivalent satisfaction to the same consumers, and imitators. Imitation is precluded by "isolating mechanisms"[164], including property rights to intangible assets and causal ambiguity[165], economies of scale and learning effects, customers search and switching costs and channels crowding. Isolating mechanisms, in turn, protect rents from *similar firms* (mobility barriers) and *potential entrants* (entry barriers). In other words, EPL regard *appropriating value*, a broad meta-process which entails several macro and micro-processes of *profits extraction in the marketplace*[166]. These processes require several **marketing-based isolating mechanisms** - such as reputation and brand effects, customer switching costs, advertising, and network externalities - that enable the firm to appropriate some of the value it has created. Therefore, despite *value creation* is a cornerstone of marketing theory, achieving a SCA (shareholder value) involves a second step: firms engage in value creation when can develop the *capabilities to restrict competitive forces* too. In other words, the second step is *sustainability of the positional advantage*, which requires focusing on competitive dynamic. Innovation capabilities generate, in fact, value for customers: this shift generates a market disequilibrium able to attract competitors triggering imitators[167]. In other words, competitors may master alternative capabilities which offer higher value through their brands. This lead the innovative firm to intensify its *competitor orientation*, developing specific capabilities and tailoring marketing actions in order to *appropriate value created* in the previous stage.

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[159] It is important to observe that Peteraf (1993) *does not* distinguish *resources* and *capabilities*.
[160] Johnson M.D. and Selnes F., 2004.
[161] It is *a reason why* customers should prefer to buy from one firm rather than others,
[162] Mizik N. and Jacobson R., 2003.
[163] It is what we define as customer orientation (exploration).
[164] Rumelt R.P., 1984.
[165] It is related to uncertainty regarding the causes of differential performances. See: Lippman S. and Rumelt R., 1982.
[166] Mizik N. and Jacobson R., 2003.
[167] Day G. S., Shoker A.D., and Srivastava R. K., 1979.

Competitive pressure generates an imbalance in supply and demand. This imbalance enhances customers bargaining power and forces the firm to reinforce its differentiation or cost strategy in order to create customer switching costs and to reduce the variance of customer preference which could accelerate imitation. Imitation is able to subtract customers[168], appropriating part of the innovative firm's value, because the more the abundance of substitutes (intense competition) in any particular segment, the more customers are likely to switch[169]. In turn, value created through innovation could be appropriated, not only by the innovative firm, but also by competitors and the same customers. Therefore, *value appropriation capabilities* differ from *value creation capabilities*[170]. Firms which develop *value creation capabilities* make constant innovations and R&D investments. Firms which develop *value appropriation capabilities* defend their position in the marketplace against competitors. When competitors imitate the product in terms of functional attributes, brand based differentiation is a powerful entry deterrence strategy and advertising has a primary role in governing brand strategies favouring market share leadership[171]. Advertising leads to brand differentiation and to market power via the mechanism of entry barriers[172], barriers to imitations, and isolation mechanisms such as causal ambiguity; therefore, customers becomes "friends"[173]. In other words, Porter's five forces model, and Peteraf's EPL explain *the sustainability of competitive advantage* over bargaining power of the other subjects which could appropriate the innovative firm's value. But these mechanisms require more investment in marketing capabilities to perform resources through business processes and obtaining intangible assets which permit to the innovative firm to carry out isolating mechanisms. EPL require, in fact, business linking capabilities too[174], in order to achieve economies of scale and learning effects.

3) Customer equity dynamic. The third Peteraf's condition, "imperfect mobility", refers to resources with "bookkeeping feasibility problems" (i.e., intangible assets) or for which property rights are not well defined[175] (e.g., customer relationships). These are idiosyncratic and path-dependent assets, because they have no other use or less use outside the firm which has developed them. They derive from cospecialzed resources, in other words, *more valuable resources if employed together* (Pareto rents or quasi-rents), which can lead the firm to achieve a SCA, *but only if the firm has got a Ricardian or a monopoly rent yet*. In this stage, the firm "owns" its customers, which from "friends" become "partners"; product offering is differentiated for friends and *customized for partners*[176]. Therefore, firms must distinguish short-term customers by long term customers, and identify *profitable segments*[177] in order to maintain *closer customer relationships*.

4) Trust equity dynamic. The last Peteraf's condition (but it is a premise) is that there must be "*ex ante* limits to competition" (hereafter, EAL). In short, before a firm is able to achieve a positional advantage on resources, there must be limited competition for those resources; otherwise competition may leverage the cost to acquire those resources over the expected returns. EAL are an analog of Porter's "early managerial choices" providing "first mover advantages", as an attractive location. Since resources are valuable if they provide superior benefits to customers, we state EAL (or early managerial choices) are due to firm's superior ability to understand customer needs and wants (*business sensing capability*) and to invest in profitable businesses before competitors. Customers, in fact, do not exist yet or do not exist anymore: they are "strangers"[178].

[168] It depends on competitors' ability to *better* satisfy customers.
[169] Johnson M.D. and Selnes F., 2004, p 6.
[170] Mizik N. and Jacobson R., 2003.
[171] Mizik N. and Jacobson R., 2003, p.66.
[172] Porter M. E., 1976.
[173] Johnson M.D. and Selnes F., 2004.
[174] These entail creating and managing close and collaborative *business relationships*.
[175] Dierickx I. and Cool K., 1989.
[176] Johnson M.D. and Selnes F., 2004.
[177] Reinartz W. and Kumar V., 2002, p. 91.
[178] Johnson M.D. and Selnes F., 2004.

4. Marketing productivity: the Virtuous Circle of Marketing Performance

There is no one-size-fits-all way to define marketing productivity. In management literature, the correct marketing-finance interface has been conceptualized as the interdependence between marketing activities and shareholder value[179]. In order to correctly understand this interface and measure marketing productivity, in fact, there is a need to use forward-looking measures of value, which are able both to capture intangible assets and financially quantify their value incorporating the concepts of risk and value for money. Lukas et al.[180] propose a theoretical framework useful for understanding the contribution of Shareholder Value Approach (hereafter, SVA) to marketing, showing five benefits of a SVA to marketing management: 1) it helps marketing to properly *define its objectives*; 2) it provides a *common language* for integrating and comparing marketing results with the results other business functions; 3) it allows marketing to demonstrate *the importance of its intangible assets*; 4) it *protects marketing budgets* from accounting logic and short-minded strategies; and 5) it puts marketing in a *pivotal role in the strategy formulation process*. The adoption of the SVA to assess marketing strategies entails the utilization of shareholder value analysis to conceptualize marketing intangible assets as sources of future cash flows with a positive net present value. In other words, actions have to be justified in terms of their ability to increase the financial value of the firm[181].

On the other side, Srivastava et al.[182] have developed a theoretical framework that makes explicit the contribution of marketing management to shareholder value creation, showing that *marketing assets and business processes* generate shareholder value: a) **enhancing cash flows**, b) **accelerating cash flows**, c) **reducing vulnerability and volatility of cash flows**, and d) **augmenting the residual value**; therefore they individuate four *key-financial drivers* of shareholder value approach.

Table 1 adapts this framework to VCM model, showing that marketing equity contribute to shareholder value creation in different manners in the different VCM stages, as described below.

Table 1 Conceptualizing marketing productivity as a virtuous cycle of marketing performance

VCM stages	investments - actions (resources)	capabilities (including horizontal capabilities)	business processes	organizational goals (ORG)	leading marketing indicators of value (LMI)	Leading dynamic marketing indicators of value (LDM)	main shareholder value drivers involved (SVD)	
INNOVATION EQUITY	developing new marketing solutions, just-in-time methodologies, promotions, investing in opinion leaders	Innovation capabilities	Product development management	*customer adaptiveness*	customer satisfaction, perceived quality , image, reputation, customer brand equity , "customer mind-set" measures of brand equity	time to market acceptance, order delivery cycle time, time of response to new product adoption, market penetration speed, time to response to promotions through trial and adoption, word of mouth rate, reject rate, delivery lead time, warranty claims	*acceleration of CF*	
ORGANIZATIONAL BRAND EQUITY	advertising, comarketing alliances, licensing, sustaining channel	brand-related capabilities	Brand leverage management	*market-place effectiveness*	market share	price premium, volume premium, channel exploitation, shelf-space, destributors defection rate, retailer margins, distribution costs, customer base extension customer switching costs, advertising and price-promotion elasticities	*enhancement of CF increasing revenues*	*reduction in the risk associated with cash flows*
CUSTOMER EQUITY	loyalty programs, customer selection, retention costs	customer-focused capabilities	Customer Relationship Management	*customer-based efficiency*	customer loyalty	CLTV, share of wallet: customer defection rate, customer acquisition rate, average margin per customer	*enhancement of CF lowering fixed & working capital*	
TRUST EQUITY	brand extension, Up grading, cross selling	growth capabilities	Intangible assets exploitation management	*strategic appropriateness*	marketing investments level	abnormal returns on stocks (shareholders reactions to mktg investments announcements), additional finance raised	*enhancement of the residual value*	

Source: adapted from Srivastava et al. 1997, 1998, and 1999; Warren 2002; Stahl et al.2003; Rust et al. 2004

[179] Arzac E. R., 1986; Day G.S., and Fahey. L., 1988; Doyle P., 2000; Lukas B.A., Whitwell G.J., Doyle P., 2005; Srivastava R.K., Shervani T. and Fahey L., 1997.
[180] Lukas B.A., Whitwell G.J., Doyle P., 2005.
[181] This entails evaluating the impact of marketing decisions on such variables as *inventory levels*, *working capital needs*, and *financing costs*.
[182] Srivastava R.K., Shervani T. and Fahey L. 1997.

The implementation of marketing strategies requires various resources (financial, human, informational, and so on). What type of marketing investment has a greater influence on the value of the firm? Marketing productivity is the "right" marketing resource allocation[183]. The matter is to define the meaning of *right*. At this purpose, we propose that *marketing productivity* has a multidimensional meaning. Therefore, we distinguish three levels of *performance constructs*: 1) the first level refers to **organizational goals** (e.g., efficiency[184] and effectiveness)[185]; 2) the second level is related to **leading marketing indicators** of performance (e.g., customer satisfaction and brand loyalty); and 3) the third level concerns **shareholder-value drivers** (e.g., cash flow augmentation and risk reduction).

We state that these three dimensions of marketing performance must be evaluated in the different stages of the VCM (Figure 2), because the aim of marketing strategies is to maintain a dynamic balance at firm's response to environmental changes. Moreover, we define **leading dynamic marketing indicators of value** as proxy variables of shareholder value drivers (hereafter, SVD) which are able to express the *time dimension* of marketing performance and/or provide managers of different information about *leading marketing indicators* (hereafter, LMI). In other words, *dynamic metrics* can be conceptualized as the link between LMI and SVD.

Our aim, in turn, is to highlight, for each stage of the VCM: a) the appropriate organizational goal (hereafter, ORG) and marketing action (hereafter, MIX), meaning the ORG and the marketing investments allocation which are coherent with the competitive dynamic illustrated in previous sections (Sustainable Competitive Advantage); and b) the appropriate LMI, and *leading dynamic marketing indicators of value* (hereafter, LDM) meaning the LMI and the LDM which are coherent with the Srivastava et al. framework illustrated above, influencing SVD and in turn Shareholder Value Creation[186].

1) Innovation equity productivity. Innovation equity concerns capabilities which provide superior value to customers. Therefore, it is a synthesis of the temporary positional advantage. We define **customer adaptiveness** (ORG) as the extent to which the firm is able to innovate. That means: identifying new customer needs; selecting, targeting and positioning the firm's new offerings in those markets where positive economic returns can be made (leveraging innovation equity); and finally changing customers' mental states developing offerings corresponding more closely to market demands (i.e., generating customer brand equity). *Promotions* (MIX), for example, are worth in this stage, *before the creation of brand equity*, speeding-up product diffusion and leading to *acceleration of cash flows* (SVD)[187]. In the other stages of the VCM, in fact, differently from new products development[188], price promotions may invite competitive actions and destroy long-term profitability and brand equity[189]. Assuming that an innovative firm launches a new product for the market in the "t_0" stage: market share *cannot* be a good performance indicator, because competitors do not exist yet, and the innovative firm initially gains a market share of 100%.

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183 Productivity is a relative concept, not an absolute standard. It can relate to different processes in the value chain (e.g., R&D, production, distribution, and marketing) and to various stages of those processes. Therefore, a firm could be less profitable in individual areas of its activities and it may compensates for them with superior performance in other areas.

184 Marketing productivity has traditionally been viewed purely in terms of *efficiency* (minimizing marketing costs for a given set of outputs), because the recognized difficulty of adequately measuring the long-term effects of marketing activities.

185 Kotler (2003) lists four types of marketing controls, distinguishing whether the firm is selecting the right goals (*strategic*), whether they are being achieved (*effectiveness*), the return on each marketing expenditure (*efficiency*), and whether the firm is making or losing money (*profitability*).

186 In this way we will align the concepts of Sustainable Competitive Advantage and Shareholder Value creation.

187 Jain D., Mahajan V., and Muller E., (1995); Robertson, T. S. (1993).

188 Pauwels K., Silva-Risso J., Shuba Srinivasan, Hanssens D. M., 2004.

189 Rust R.T, Ambler T., Carpenter G.S., Kumar V., Srivastava R., 2004.

In other words, innovation equity concerns capabilities which provide superior *value to customers*, enhancing product functionality[190], that is customer brand equity and its surrogates (e.g., customer satisfaction)[191]. Therefore, useful metrics (LMI) for evaluating marketing performance in this stage are: customer satisfaction, perceived quality[192] and customer brand equity[193]; in other words, all "customer mind-set"[194] measures of brand equity, focused on assessing the customer-based sources of value. Marketing strategy is coherent with a "revenue emphasis" [195] approach, because it focuses externally on customers' perceptions and attitudes, impacting on customer satisfaction. Dynamic measures of performance (LDM) in this stage can be[196]: time to market acceptance, order delivery cycle time, time of response to new product adoption, market penetration speed, time to response to promotions through trial and adoption, word of mouth rate, reject rate, delivery lead time and warranty claims.

2) Organizational brand equity productivity.

In this stage, firms must develop capabilities in order to establish strong market-place positions, *sustaining and differentiating brand*, defending customer brand equity through *advertising*, and leveraging their *channel (distribution) equity*[197] (MIX). Therefore, organizational brand equity is a synthesis of the market-place advantage, that is the position the firm is able to obtain in the market relatively to competitors[198]. Defending customer brand equity leads to strength in the distribution channel. Thus, organizational brand equity includes channel effects[199]. We define **market-place effectiveness** (ORG) as the extent to which *market-place* organizational goals and objectives are achieved. Market-place organizational goal is related to gaining market-place performance (e.g., market share, and brand loyalty). Several researches[200] argue that both market share and profitability are outcomes of cost and differentiation advantages. PIMS researches[201] have shown that the *ratio of marketing expense to sales* is generally lower for high-share firms. These differences indicate *economies of scale* and *learning effects* [202]. Another important finding of PIMS researches was the link between *market share and market power*: large scale firms earn higher profits than their smaller competitors because their size permits them "to bargain more effectively". Bargain power over customers was reflected in higher prices, and bargain power over providers was reflected in lower "purchases-to-sales ratio". Investments in brand equity make the firm less vulnerable to competition and directly influence the firm's performance, enhancing cash flows - through market share and sales - and reducing their risk by deflecting competitive initiatives[203]. As a result, the firm may enjoy high entry barriers due to factors such as economies of scale, brand differentiation, and large switching costs[204]. In other words, for high-share firms, advertising contribute to the *enhancement of sales and cash flows*[205], leveraging bargain power of the firm over the other business actors and *reducing the risk associated with cash flows (SVD)*.

[190] That is providing customers of superior performance, greater reliability and durability, unique features, better product service quality, wider availability, greater ease of use, lower levels of perceived risks, and higher levels of trust and confidence. See: Srivastava, et al., 1998.
[191] Srivastava et al., 1998, p. 7.
[192] Day G. S., 1994, p.42.
[193] Capon N., Berthon P., Hulbert J.M., Pitt L.F., 2000.
[194] Keller K. L. and Lehmann, D. R, 2001.
[195] R. T. Rust, Moorman C., and Dickson P. R., 2002.
[196] Srivastava et al. 1998; Warren K., 2002.
[197] Sudharshan D. and Sanchez R., 1998.
[198] Day and Wensley, 1988.
[199] Rust R.T, Ambler T., Carpenter G.S., Kumar V., Srivastava R., 2004.
[200] Jacobsen and Aaker, 1985; Buzzell and Gale, 1987; Jacobsen 1988.
[201] The connection between marketing actions and financial performance has been initially developed by analysis of the PIMS (Profit Impact of Marketing Strategies) company database, which has shown a positive relationship between market share and the firm's aggregate return on net assets.
[202] Schoeffler S., Buzzell R. D., and Heaney D. F., 1974, p.141.
[203] Srivastava et al. 1997.
[204] Rappaport A., 1998, p. 41
[205] Srivastava and Shocker, 1991.

Market-place advantage represents the realized strategy of the firm concerning the value captured by customers and the costs incurred by the firm relatively to its competitors. Therefore, among measures of comparison with competitors[206], market share[207] and brand loyalty (LMI) are especially prominent. Moreover, market share is one of the most used measures in the academic field as well as in business practice[208]. Useful dynamic metrics (LDM) in this stage can be competitor comparisons of the monopolistic power of the firm, such as: price premium, volume premium, revenue premium[209], and Herfindahl index[210]. These metrics focus on competitive dynamic; for example, "the revenue outcome is achieved in competitive equilibrium, where brands adjust their marketing mix"[211]. Therefore, sales are influenced by the marketing mix of both the brand and its competitors (equity), and by the firm's previously existing strength from its image[212], in other words, by its positional advantage achieved in previous stage. In conclusion, brand differentiation lead to *monopolistic power*, reducing customer bargaining power and in turn customer acquisition costs[213]. A brand power is generally manifested by an ability to charge a *price premium* to customers, that is a price consistently higher than that of a close competitor. Brand power includes channel effects, increasing switching costs for best suppliers and distributors.

3) Customer equity productivity. We define **customer-based efficiency** (ORG) as the extent to which the firm is able to *minimize marketing costs to acquire and retain customers*, retaining and leveraging existing customers profitability as well as generating profitable new customers (leveraging customer equity) in the achievement of long-run financial outcomes. Customer efficiency means *marketing quality for specific segments*, the loyal and profitable ones, and a "zero defection" [214] philosophy. Market share, in fact, includes both *occasional buyers* (transaction-oriented customers) and brand-loyal customers (potential relationship-oriented customers). Moreover, *brand loyalty* is the first necessary condition for the existence of a relationship, but it *does not lead automatically to financial improvements*. Despite the relevance of the "loyalty effect"[215], Reinartz and Kumar have shown that loyal customers are not necessarily *cheaper to serve*, *less price sensitive*, *incline to market the company* (through word-of-mouth) or *easy at bringing in new business*[216]. Therefore, in this stage, the firm must make more customer relationship investments (MIX), in other words, it must bear "relationships costs (routine costs associated with serving the customer) and the retention costs (the cost of defending, strengthening and expanding the relationship)"[217]. To put it differently, the firm must identify *profitable segments*[218], *not revenue segments*, considering both acquisition costs and retention costs and not focusing on customers who are "easy to acquire and retain". We define customer equity as *profitable customer loyalty* (LMI), that is the output of a customer relationship process aimed to select brand-loyal customers and identify among them profitable long-term segments *beyond the brand-effects*. In other words, in order to gain financial improvements, the firm must translate *brand* loyalty into *profitable customer loyalty*. This is the shift from "market share quantity" to "customer share quality"[219]. In short, customers become "assets" and their satisfaction drive customer

[206] This measures can be referred to all competitors (e.g., Narver and Slater 1990) or to "major competitors" (Jaworski and Kohli 1993).
[207] Boulding W., Lee E., and Staelin R., 1994.
[208] Kokkinaki and Ambler, 1999.
[209] It is the difference in revenue between a branded product and a corresponding private label. See: Ailawadi K. A., Lehmann D. R. , and Neslin S. A., 2003.
[210] It is a measure of concentration which estimates market power and Tobin's q.
[211] Ailawadi K. A., Lehmann D. R. , and Neslin S. A., 2003, p. 4.
[212] Ailawadi K. A., Lehmann D. R. , and Neslin S. A., 2003, p. 3.
[213] Stahl H. K. , Matzler K. , Hinterhuber H.H. , 2003.
[214] Reichheld F. F. and Sasser, W. E. 1990.
[215] Reichheld F., 2001.
[216] Reinartz W. and Kumar V., 2002.
[217] Stahl H. K. , Matzler K. , Hinterhuber H.H. , 2003, p. 270.
[218] Reinartz W. and Kumar V., 2002, p. 91
[219] Heskett J. L. , T. O. Jones, G. W. Loveman, W. E. Sasser, Jr., and L. A. Schlesinger, 1994.

loyalty/retention. Selecting and satisfying customers performing high-volume product with a high repeat-purchase rate means gain rapidly new profits[220]. Useful metrics (LDM) in this stage can be: share of wallet, and a correct metric of Customer Life Time Value (CLTV), which includes all customer-related margins, the churn rate, and the *opportunity cost of customers* too. Customer equity was, in fact, identified as a measure of the marketing asset by Blattberg and Deighton[221], who defined a firm's customer equity as the sum of the lifetime values of its customers. Closer customer relationships involve customer switching costs, which include both monetary costs and non-monetary (or psychological costs) and may constitute a barrier to switching[222]. Profitable customer loyalty (customer profitability) entails an *enhancement of cash flows lowering fixed and working capital* (SVD) by cutting off costs to acquire and retain customers and lowering the churn rate.

4) Trust equity productivity. We define **strategic appropriateness** (ORG) as the extent to which marketing program objectives align with shareholders return expectations of the cash-generating abilities of the firm. This entails allowing the firm to enhance shareholder credit toward marketing activities (trust equity) and hence making more *investments in marketing key-intangible assets* (LMI). Selecting the right marketing goals means, in fact, aligning marketing program objectives with shareholders return expectations. *Providing shareholders of nonfinancial data about valuable future options* (MIX) is a way to leverage the market to book ratio of the firm[223]. Shareholders know, for example, that leveraging the existing brand (extension) is between five and ten times cheaper than launching a new brand[224]. Moreover, better differentiated brands can develop more efficient marketing programs because they are more responsive to advertising and promotions, and can more quickly adopt brand extensions[225]. In other words, *brand extension is a real option* and can be conceptualized as the firm's exploitation of its accumulated investments, capabilities and outcomes in marketing key-intangible assets (organizational brand equity). Lane and Jacobsen[226], for example, show that *brand extension announcements* lead to abnormal returns on stocks. Therefore, a useful metric (LDM) is *shareholders' reactions to marketing investments announcements*. Other real options derive from *customer base*: "relationships with end users can be exploited in building relationships with other entities (e.g., distributors)"[227] improving and enhancing, in other words, customer equity. Another example of real option is *up grading of customers*, that is customers who moves from an economy product to a premium product[228]. Rappaport[229] argues that firms that "beat market expectations", procuring potential shareholder return, present one or more general characteristics[230]. These characteristics refer to accumulated intangible assets and capabilities in previous stages of the VCM[231]. In other words, *the enhancement of residual value of marketing investments (SVD) is related to the exploitation of the growth options created by leveraging marketing key-intangible assets in previous five years (planning period).*

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[220] McGovern G. J., Court D., Quelch J. A., and Crawford M., 2004.
[221] Blattberg, R. and Deighton J., 1996.
[222] Dwyer F.R., Schurr P.H., Oh S., 1987.
[223] Lev (2004, p. 109) argues that "companies need to generate better information about their investments in intangibles and the benefits that flow from them – and then disclose at least some of that information to the capital markets. Doing so will both improve managerial decisions and give investors a sharper picture of the company and its performance, which will lead to more accurate valuations and lower the cost of capital".
[224] Ambler T., 2003, p. 62
[225] Keller and Aaker 1992.
[226] Lane V. and Jacobsen R., 1995
[227] Srivatava et al., 1998, p. 6.
[228] Rust R., Zeithaml V. and Lemon K., 2000, p.47.
[229] Rappaport A., 1998, p. 185.
[230] In short, He refers to: *brand name advantages* (price premiums, low costs achieved through economies of scale, brand extension to new products/markets); *capability to change the rules* (customer services, low prices, bargaining power over its suppliers); *speed in reacting to change*; *leadership in high technology* (protect competitive technological advantage, either with patents or by constantly improving the product); *effective downsizing*; *skill in acquisitions*.
[231] In this stage, in fact, customers are "strangers".

5. Conclusions: towards a Marketing Equity Based Theory

The theoretical framework proposed in this paper postulates that a primary strategic role for marketing managers is setting *strategic directions* for the firm and guiding investments (resources) to develop intangible assets (key-outputs) that can be leveraged within business processes performed by dynamic capabilities. No cost/differentiation advantages in fact are truly durable, but *the resources and competencies needed for generating new advantages are durable*. These *growth capabilities* must be exploited by firms in order to make more marketing investments.

Therefore, the source of competitive advantage is the creation and exploitation of *distinctive capabilities* which are difficult to build and maintain, difficult to codify and, in turn, difficult to replicate. To be profitable businesses, firms must produce and capture organizational value beyond the market value of their resources. A firm's success depends on its capacity to create value, and *value derives from customers*. Marketing investments, in fact, are made in order to acquire marketing resources, combine them through appropriate marketing processes and, in turn, gain marketing knowledge that is embedded in the four marketing key-intangible assets described in the VCM model: innovation equity, organizational brand equity, customer equity, and trust equity.

Sources of sustainable competitive advantage are *customer value drivers*, which are different in the different stages of the product life cycle: satisfaction for acquaintances, satisfaction and trust (loyalty) for friends, satisfaction, trust and commitment (customer intimacy/equity) for partners[232]. Therefore, we have defined *three dimensions of marketing performance*. These dimensions have been conceptualized as the output of marketing actions (MIX) directed to create and leverage marketing key-intangible assets linking marketing equity to marketing productivity. In turn, *we define marketing productivity conceptually as the quantifiable value added by marketing key-intangible assets, relatively to their investments*.

In this sense, the VCM model is coherent with the shareholder value framework, because it shows that any change in strategy that increases the value of intangible marketing assets creates shareholder value. In other words, the value of a firm is increased when managers make decisions that increase the value of its marketing key-intangible assets. For example, at any point in time, marketing innovation capabilities of the firm will have changed customers' mental states (customer brand equity), but they may not yet have influenced the firm's cash flow streams. In this sense, innovation equity - as well as all the other marketing intangible assets - represents a reservoir of cash flow that has accumulated from marketing activities but has not yet translate into money. In short, *quantifying increases and decreases in marketing intangible assets value* is an essential part of measuring marketing productivity, because marketing investments and resultant assets are largely intangible.

In conclusion, in this paper we have depicted a broad theoretical framework useful for linking Shareholder Value Creation and the achievement of a Sustainable Competitive Advantage in a dynamic marketing-based model (VCM). The core contribute of marketing to shareholder value creation is **marketing profitability**, that is the extent to which the firm is able to make cash in the long term via marketing activities. Therefore, as an extension of this paper, in the next future, we aim to develop this theoretical framework as a **Marketing Equity Based Theory (MEBT)**, useful to *financially quantify intangible marketing assets' value*.

[232] Johnson M.D. and Selnes F., 2004.

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