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Texas McCombs

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# A New Playbook for Marketing

Although marketing remains largely frozen in the 2010s, research shows growing companies are busting boundaries.

Based on the research of Sebastian Hohenberg



The customer is always right, but in today’s climate, marketing solely to the customer is not.

New research from Texas McCombs shows that today's most successful marketing departments are less laser focused on their customers than they are on building relationships across industries and carefully considering their products' end user — even if that's not their direct customer.

Companies with this broad-based approach — termed “marketing excellence” in the field — generated portfolios with up to 8.58% higher rates of return than those using standard marketing approaches, according to research by [Sebastian Hohenberg](#), assistant professor of marketing, along with Christian Homburg and Marcus Theel with the University of Mannheim.

In the first empirical studies defining and analyzing marketing excellence, researchers mimicked an investor with \$100 from 2000 to 2018 in portfolios containing companies employing traditional marketing strategies — which emphasize putting the customer first and gaining competitive advantage — versus an investor with \$100 in a marketing excellence portfolio. The investment in traditional portfolios yielded \$744, while the marketing excellence portfolio grew to \$1,313 — with the most dramatic jump in growth in 2017–2018.

Hohenberg says these returns should signal to investors, companies, and academia that what worked in marketing 20 years ago is not what works today. “We teach our students that companies can grow organically by focusing on the customer and doing that better than competitors. That's the story we've always told, and that's what the bulk of companies still believe,” he says. “But that's not what the best companies these days are actually doing.”

To understand what they are in fact doing, the researchers interviewed 39 senior executives from growing businesses. Then, they used a machine-learning algorithm and an original dictionary to scan the text of 8,317 letters to shareholders from U.S. companies, hunting for words associated with these

novel marketing insights — such as “ecosystem,” “symbiosis,” “end-user,” “touchpoint,” and “trial and error.” They compared growth across these companies, and the results were clear.

“When firms announced marketing excellence strategies, investors increased their expectation of firm value, indicating growth.” — Sebastian Hohenberg

### **Seeing the Ecosystem**

What impresses investors today is a company’s willingness to look at the broader business ecosystem — to venture outside the market or the industry, Hohenberg says. “There’s a collapse in boundaries that’s crucial today for achieving organic growth,” he says. “Companies that are growing today go out and engage with players that are not even somewhat related to their industry.”

One car manufacturer in the study has partnered with the digital experts at tech giants such as Google, Apple, and Microsoft in pursuit of autonomous driving. A chemical company partnered with a digital startup and shaped an entirely new business model; now, that company is selling data, not developing chemicals.

“We always used to tell our students to start by understanding the market. But in these interviews, we found that successful companies do a lot more than that.” — Sebastian Hohenberg

Growing companies are also open to hiring talent from other industries — something most organizations today are still hesitant to do. “The vast majority of

the companies I’m aware of use industry experience as the main indicator for making hiring decisions,” says Hohenberg, who worked as a marketing consultant before moving to academia. “I don’t think this is helpful for this new world that we’re seeing, where you need to think in terms of ecosystems.”

One automotive company he studied is trying to match their navigation system with the layout of downtown parking lots, so they’ve started hiring people who work in construction to help with that perspective. “Today, if you’re only hiring people who have experience in your industry, you’re becoming too homogenous,” Hohenberg says.



**Understand the End User**

The researchers also found that today’s successful players are drilling down all the way to the needs of the product’s end user — a stark departure for business-to-business companies, who are used to thinking mainly about their direct buyers, Hohenberg says.

From the annual reports, it was clear that even for construction or chemical suppliers, the best ones are reaching out to the customer at the end of the chain, building relationships with them and studying their behaviors. That means a chemical supplier making coatings for an automotive company is following the behavior of the car's driver.

“They have learned over time that if they wait until their direct customer comes to them illustrating a problem, it's too late,” Hohenberg says. “In order to anticipate market change, you really need to understand the end user and the behavior changes that are happening at this level.”

And once those behavior changes are identified, the business must adapt quickly: “Our results show that marketing agility is the important ‘execution enabler,’” Hohenberg says — and it means shedding the internal systems that can stall an organization's response.

To become more agile, one IT company in the study has largely done away with departmental divisions. “Our interview partner told us that their aim is to no longer talk about a marketing, sales, or technology department, but about which task each individual is responsible for,” Hohenberg says.

He adds that 10 years ago, not many businesses could handle the complexities of breaking down departmental walls, connecting with the end user, or partnering outside their own industry. But with recent digital advancements, these broad-based activities of marketing excellence are well within reach — and well worth the effort, as the research found.

“You can imagine marketing excellence as the next step in the evolution of how companies can achieve

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# growth.” — Sebastian Hohenberg




But he cautions that simply sprinkling the annual report with the right buzzwords won’t do the trick. In the study, the algorithm caught whether mentions of marketing excellence activities were past- or future-tense. Past-tense references indicated stronger signals of marketing excellence implementation and were associated with almost double the growth, Hohenberg says. “Investors are very clever people who only update their beliefs if they see the company walking the talk.”

*“Marketing Excellence: Nature, Measurement, and Investor Valuations” is forthcoming online in advance in the Journal of Marketing.*

*Story by Judie Kinonen*

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