Till Debt Do Us Apart: Marketing Induced Debt and the Firm Risk-Return Tradeoff

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Abstract

Firms incur marketing expenses, sometimes funded through debt, to generate organic sales growth. Unlike physical assets, marketing assets are transient and not readily tradeable; hence to the extent to which marketing uses debt inefficiently, it increases a firm's risk. Using theories from marketing, accounting and finance, we build a conceptual model demonstrating how marketing can lead to increased risk from debt if it fails to deliver concomitant growth. We find that marketing does utilize debt and that marketing and R&D capabilities reduce the debt needs of a firm as well as increase the returns from taking on that debt. We also find that marketing related debt is an important predictor of the bankruptcy of firms. Overall, we show the dual role marketing plays as a fund generator (through sales) and a fund user (through debt) influences the risk-return balance of a firm.

Keywords: *Debt; Marketing capabilities; Bankruptcy*

Track: Marketing Strategy & Theory