Marketing must become a leader for change

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e Marketing

cross the corporation

Two major changes have emerged in marketing practice over the past five years. The first is the use of the Internet in marketing. An era of intense experimentation with this technology has taught us several lessons. For example, applicability for business-to-consumer e-commerce turned out to be much narrower than most marketers expected. E-mail marketing appeared to be an efficient marketing channel at first, but its abuse and overuse may soon dilute its effectiveness just as direct mail became synonymous with junk mail and telemarketing degenerated from a cost-effective two-way interactive channel into sometimes intrusive customer harassment.

The Internet has empowered customers—usually to the disadvantage of marketers. Now customers can readily search for the best "deal" on every transaction and can communicate with each other to spread word—both positive and negative —about their product purchase experiences. Marketers have been at least moderately successful in the use of "mass personalization" technologies such as collaborative filtering to tailor recommendations to customers and generate some incremental sales.

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Marketing productivity as we define it includes both efficiency and effectiveness to generate loyal and satisfied customers at low cost. However, many companies either create loyal customers at an unacceptably high cost or alienate customers—and employees—in their search for marketing efficiencies. We believe marketing needs to change in order to reestablish itself as a fundamental driver of business success and that the solution lies in "high performance marketing."

The second major development has been the popularization of customer relationship management (CRM) software and the rise of 1-to-1 marketing. The CRM industry has exploded in the last few years, growing at 40% per year as more than 2,000 vendors have emerged, promising to achieve the seamless integration of sales, marketing, and customer service around the needs of individual customers. The CRM software market is expected reach $10 billion in 2001 (according to AMR Research), while the worldwide CRM services business reached $34 billion in revenues in 1999, growing at an annual 20% rate with a projected reach of $125 billion by 2004, according to IDC.

These developments, though momentous, have not brought marketing appreciably closer to our stated ideal of "effective efficiency." In many ways, the marketing function remains as troubled as ever. Major new problems have arisen, such as the ability of customers to readily organize themselves into powerful groups speaking with a unified voice, while others have subsided somewhat. For example, as media continue to get fragmented and more addressable, marketing noise levels have decreased somewhat.

The Trouble With Marketing

Marketing is still not truly customer-centric. For all the lip service that has been paid, marketers are still attempting to control and drive customers to behave in ways they want, rather than organizing their own activities around customer needs. The Internet has not altered this in any significant way.

Most CRM implementations have been expensive failures. CRM, fundamentally, is really just fine-tuned target marketing, albeit with better coordination between sales, marketing, and customer service than we have had in the past. Many companies rushed to embrace CRM as a cure-all that would make them more customer-focused and successful, ignoring the reality that no software can overcome the lack of a customer-centric culture and mindset. Even for companies already possessing a strong customer-centric orientation, there is no guarantee that grafting a CRM system on top will lead to major improvements; it can even lead to deteriorated performance if it takes away from employees' flexibility and responsiveness in dealing with customers.

Most CRM systems do little to improve the customer experience; they just enable marketers to better deploy their resources. Overall, companies have probably lost more money than they have gained through these implementations. In fact, it is estimated that 60% to 80% of CRM projects do not achieve their goals, and 30% to 50% fail outright. CRM implementations in most companies have been initiated by CEOs and led by CIOs; the marketing function has rarely taken the lead or even been actively involved in the decision making. CEOs have embraced CRM technology as a way to finally get some precision and accountability in their marketing efforts. However, the treatment has rarely matched the disease, with the unsurprising result that the marketing function remains as malaise-ridden as ever.

Marketing spending continues to yield poor returns, especially on advertising and branding. For example, many dot-coms spent the bulk of their venture funding on outrageously expensive advertising campaigns, under the delusion that having a recognizable brand would solve all of their other business problems.

The promise of radically efficient business models that leverage the uniqueness of the Internet has given way to widespread disillusionment and a seeming return to "business as usual." However, the root cause of the dot-com debacle was not poor technology or lack of capital, but companies' failure to understand customer behavior. They were left dumbfounded when the anticipated huge changes in behavior required for success didn't happen. Companies especially failed to understand the psychology of consumer resistance to innovation and failed to develop strategies to overcome such resistance.

We believe marketers have not yet fully examined how their function needs to change in order to reestablish itself as a primary driver of business success. High performance marketing (HPM) may be the solution to their problems.

High Performance Organizations

Jordan defines high performance organizations as "groups of employees who produce desired goods or services at higher quality with the same or fewer resources. Their productivity and quality improve continuously, from day to day, week to week, and year to year, leading to the achievement of their mission." (See Additional Reading, page 23.)

High performance organizations share many characteristics. In addition to identifying and eliminating non-value-added activities, leveraging technology in the service of their mission, and having a strong, organization-wide customer orientation, they also have inspirational and transformational leadership that focuses their resources and energies on achieving a clearly defined mission.

Organizations that perform well empower employees to act autonomously to achieve the corporate mission and provide incentives to individual employees to align their behaviors with the achievement of better outcomes for customers. They also have organizational cultures that embody a high degree of trust—what Carnevale calls "an expression of faith and confidence that a person or an institution will be fair, reliable, ethical, competent, and non-threatening."

High performance organizations tend to use systems thinking, so all employees have a dynamic understanding of how the

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"living" organization functions and the interdependencies between components and subsystems. They are flexible and adaptable to changing circumstances, emphasizing continuous improvement, reinvention, and innovation.

High Performance Marketing

The operations and manufacturing functions at many leading companies today can be described as "high performance" because they have demonstrated continuous quality improvements and cost reductions. More than anything else, marketers will have to start thinking in new and creative ways about everything in their domain—markets, customers, budgets, organizational structures, information, and incentives. We propose the marketing function needs to adopt the following tenets in order to move toward true high performance.

Customer centricity. Customer-centric marketing will lead to non-intuitive consequences. First, whereas traditional marketing has been concerned with demand management, customer-centric marketing will lead the marketing function toward "supply management"—the ability to rapidly respond to customer requirements rather than focusing on controlling them. Second, traditional marketing practices emphasize the acquisition of customers, while customer-centric marketing emphasizes the retention of the "right" customers along with the "outsourcing" of the rest. Third, whereas traditional firms and customers are institutionally separate with little interaction, customer-centric marketing will lead to customers and firms co-creating products, pricing, and distribution. Fourth, customer-centric marketing will be characterized by more "fixed costs" and fewer variable costs; companies will make infrastructure investments that greatly reduce transaction costs. Finally, the vocabulary, metrics, and organizations will evolve toward a customer focus rather than product focus or segment focus. For example, Procter & Gamble renamed its channel sales organization "customer business development" in early 1999.

Investment orientation. In most companies, sales and marketing expenditures are several times greater than capital expenditures. Yet capital expenditures are subject to a far greater amount of analysis and evaluation than marketing expenditures. Most marketing activities involve a substantial lag between action and effect. When marketing is treated as an expense, the causality often becomes reversed, as marketing budgets tend to be determined by sales forecasts. Treating marketing as an investment forces companies to come to grips with the temporal relationship between current marketing actions and future marketplace reactions.

Well-spent marketing resources applied to a brand in its early years can build a stock of value that can be sustained or even enhanced with very small amounts of spending. Marketing investments can pay off if they are well-timed and targeted. Investments made at the right stage of the product life cycle and directed at the most profitable customers deliver superior returns.

Systems thinking. Systems modeling is an integrative approach that combines systems thinking and the principles of cybernetics. It incorporates causal-loop diagramming to show sequences of cause-and-effect relationships as well as stock-and-flow diagrams to represent systemic effects of feedback on the accumulations and rates of flow in the system. These two system representations are coupled in order to simulate the behavior of the system. Modeling and simulating the system helps managers recognize and understand the dynamic patterns of system behavior. Systems dynamics offers a great deal of potential to marketers, but is hardly used. For example, it is a useful approach to model the customer acquisition and retention process.

Incentive alignment. The incentives provided to marketing employees are haphazard and often at odds. Most advertising agencies are still paid a commission proportional to the volume of advertising run, creating a disincentive for higher impact advertising that needs fewer exposures. Many salespeople are still compensated on short-term customer acquisition measures, with little regard for customer profitability or longevity.

The guiding principle in creating incentive systems is to use market mechanisms wherever possible. In their book, *Free to Choose* (1990, Harcourt Brace), Milton and Rose Friedman present a framework for evaluating the relative productivity of spending in different circumstances. The "Friedman Matrix" categorizes business spending along two dimensions: whose money is spent and for whose benefit the money is spent. The way to align employee and company interests is to organize every spending decision in such a manner that employees act as though they are spending their own money for their own benefit. This will ensure that they are both effective and efficient in their resource allocation.

The framework suggests that resources are spent most optimally when they are "owned" by an individual and spent by that individual for his or her own purposes. In buying a family car, for example, individuals are likely to spend what they know they can afford and get a car that satisfies their needs. On the other hand, individuals able to spend someone else's money on themselves (e.g., buying an expense account meal) are likely to get what they want (effective), but will probably spend more than if they were paying their own money (inefficient). A third situation exists when an individual spends his or her own money (staying within a budget) to purchase a gift for someone else; while efficient, this is unlikely to optimally satisfy the recipient (ineffective). Finally, when individuals (e.g., bureaucrats) are charged with spending other people's money (e.g., taxpayers) on things that do not affect them directly (e.g., welfare), spending is neither effective nor efficient.

Incentive alignment is a guiding principle for moving toward high performance marketing. Examples include creating sales force compensation schemes to reward customer retention and profitability (as the insurance industry has done in recent years) and incentivizing new product development teams to create high quality new products in a short time without consuming inordinate resources.

Avoid incremental thinking. When it comes to changes in how the marketing function is defined, organized, and compen-

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sated, incremental thinking will not suffice. Given product parity and near-perfect information availability and matching, the quality of a firm's marketing strategy and execution will be prime drivers of market capitalization.

For too long, the marketing function has been content to focus on relatively trivial tactics and has been lackadaisical about taking a prominent role in shaping the overall fortunes of the corporation. In other words, marketing has not aspired to a higher level and has demonstrated no zeal or passion to elevate its respect and relevance within the corporation. Other functional areas have rallied around ambitious and organization-transforming initiatives, such as TQM and Six Sigma (driven by operations), Economic Value Added (driven by CFOs), and the Balanced Scorecard (driven by accounting).

Marketing needs to break out of its "doer rather than leader" role and its preoccupation with the mundane. We believe marketing needs to become a leader for change and transformation across the corporation. Marketing must take hold of the leadership levers for the corporation. The best way for it to do so is to leverage its fundamental identity as the voice of the customer within the corporation. Marketing needs to go outside the box and break many of the self-imposed rules that have relegated it to a constricted role.

Understand market growth. One of the biggest gaps remaining in marketing know-how is an understanding of what determines market growth. Marketers must attempt to grow the total market, not just try to protect and grow their market share. Several factors can contribute to market growth, such as an emphasis on emerging markets and the creative "dematuring" or revitalization of mature markets through the fusion of non-traditional technologies (as Yamaha did by incorporating digital electronics into pianos) or injecting elements of fashion and personalization (as some European manufacturers have done with small appliances). Commodity markets in developing markets such as India and China are ripe for dematuring, through the introduction of packaging, processing, and other value-adding functions.

View customers differently. Just as we have gone through significant changes in how we think about employees and shareholders, we will need to engage in some fresh thinking about customers. Customers should be viewed and managed as assets of the organization to be invested in, depreciated, and replaced. In addition to the outsourcing of customers (e.g., using business partners to serve certain customer groups), companies also need to think about trading, sharing, firing, and outright selling customers.

Harness marketing information. In *2020 Vision* (1992, Simon & Schuster), Stan Davis and Bill Davidson described the "information exhaust" that companies generate through their ongoing transactions and relationships with customers. In the past, most of this exhaust was discharged into the atmosphere and disappeared. Smart companies, however, have developed ways to "turbocharge" the core business by harnessing this information flow. Through feedback mechanisms, this allows the marketing "engine" to operate at a higher level of efficiency. Information exhaust also can generate highly profitable sidelines that in some cases may become more profitable than the core business. For example, by focusing on the lifetime value of customers, General Motors' U.S. operation sees the potential for substantial synergies across its automotive, consumer credit, mortgage, and even its communications businesses.

Firms can use this thinking to guide strategic decisions on entering new businesses. For example, entry into the credit card business is often dictated not by the economics of that business per se, but by the usable information used to improve the core business. Similar examples can be found in the magazine and software industries, as the recent merger of AOL and Time Warner demonstrates. Given their potential value, it is imperative that firms develop sound mechanisms for sharing information and managing marketing knowledge. Marketing employees need to receive incentives to share information that could be of broader value to the corporation.

Prepare for a new role. Senior management needs to reconsider how to control and integrate the marketing function for best results—to determine the proper role of the marketing function in a corporation where virtually all functions have become market-oriented. To start with, the sales-marketing-customer service separation must end, and marketers must take on the responsibility for attracting as well as retaining and growing profitable customers. Additionally, marketing has to be accorded greater say over key decision areas such as procurement, pricing, product development, and logistics, all of which have been gradually taken away from marketing departments.

In the future marketing will get wider but shallower; it will encompass a wider range of activities but will perform fewer of them in house. Many activities will be outsourced to best-in-class external suppliers, while others will be performed in various parts of the corporation. The marketing manager's job will evolve from a "doer" to a coordinator of internal and external resources pertinent to customer retention and profitable growth.

The marketing function will also, in a more deliberate way, formally incorporate upstream linkages that were once the domain of the purchasing department. Key suppliers will become an integral part of the marketing team and will be involved in strategic planning and new product development. For example, this is already happening in the automotive industry.

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Employ dynamic budgeting. The budgeting process is probably one of the biggest contributors to marketing's problems. Budgeting is static, forecast-driven (based on notoriously inaccurate forecasts subject to intense and deliberate distortions and game playing), counterintuitive (e.g., mixing cause and effect in advertising), and subject to the "use it or lose it" rule. Budgets escalate year after year in prosperous times, with little consideration for changes in actual needs over time.

Static budgeting needs to be replaced with dynamic budgeting, where resources are requested and allocated based on an "as needed and justified" basis. Rather than budget by scale or in some proportion to the top line, budgeting should be driven by the size of the opportunity, the anticipated ROI, and increase in shareholder value. This requires decoupling the marketing budgeting for a brand from the current brand's revenue level and instead coupling it to the opportunity for revenue and profit growth that the brand presents. In situations where more traditional budgeting procedures persist, managers need to receive direct incentives not to fully use their budgets, just as U.S. farmers are often given incentives not to plant crops.

Consider how marketing budgets and customer-related responsibilities are typically allocated in companies. The marketing budget usually covers advertising, sales promotions, market research, and some portion of distribution costs. It may include the cost of the sales force, though in many companies it does not. It almost never includes the cost of customer service, and usually does not include product development.

It is not unusual to find situations where sales, customer service, and new product development are funded out of budgets that are not under marketing's control. Clearly, we need to create transparent incentive schemes to focus all marketing personnel on the essentials: the profitability of what they do and the maintenance of high levels of customer satisfaction and retention.

Change marketing metrics. Marketing employees for too long have been measured on market share, with little or no consideration to the profitability of that market share. Of late, there has been some movement toward thinking more about the bottom-line impact or measuring marketing based on its profit impact.

Ultimately, the measure that matters most for a business is shareholder value or market capitalization. It is a summary descriptor of all the value the business has created and is expected to create in the future. The question for the marketing function is: How can it affect the company's market capitalization? The measure of marketing's success must move from "share of market" to "share of market capitalization" within the industry. Operationalizing this will be one of the key challenges for marketing in the years to come.

Filling the Void

Reflecting the greater emphasis on shareholder value in recent years, the CFO today drives most companies. However, a preoccupation with finances can be dangerous because it can lead companies to lose sight of the true driver of business success—the long-term satisfaction and retention of profitable customers.

In our view, marketing has a great opportunity to create excitement around becoming customer-centric and in the process can satisfy both the CEO and the CFO. If, on the other hand, it continues to take a back seat within the corporation, it will be abdicating its fiscal responsibilities. High performance marketing is really "inspirational marketing" that can rally the corporation to set and achieve much higher goals than ever before. While it has a number of tenets as discussed earlier, its defining characteristic is that it is customer-centric. In order to operationalize customer-centric marketing fully, it is essential that companies create a new senior executive role that takes an outside-in perspective rather than the inside-out perspective adopted by others. This role is that of a "chief customer officer" (CCO).

The CCO position, while currently seen mostly in small high-tech companies, is expected to become commonplace. The Meta Group projects that 25% of Global 2000 businesses will have a CCO by 2003, while Gartner expects 15% of U.S. companies to have such a position by 2003. Cisco Systems has been a pioneer in this regard; it established the position of senior vice president of customer advocacy in 1991, with Cisco's customer service, product design, and IT groups reporting to it.

There is a void at the top of most major corporations, and marketing must move quickly to fill it. If it does not, marketing will continue to become more marginalized, and all stakeholders—customers, employees, and shareholders—will suffer as a result. ■

Additional Reading

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