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The CEO's marketing manifesto

By Nirmalya Kumar

In *The Practice of Management*, Peter Drucker wrote, "The business enterprise has two and only two basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs." Today, many CEOs of major companies are disappointed over marketing's inability to produce measurable results. Increasingly, they view their marketing department as an expense rather than an investment and fewer marketers are rising through the ranks to become CEOs. While companies unabashedly declare their wish to get closer to customers, marketing is actually losing power to other functions in the corporation.

What happened? How did marketers lose their influence and marketing, its organizational relevance? More important, how can marketers capture the imagination of CEOs and marketing recapture its strategic role in the firm? Ironically, while the marketing function has been declining, the need for marketing has never been greater. My thesis is that to rescue themselves from the corporate obscurity that comes from responsibility for implementing tactics—the traditional four Ps of product, place, price and promotion—marketers must start

driving overall strategic change. They must help CEOs lead organization-wide transformational initiatives that deliver substantial revenue growth and increased profitability.

The Decline of Marketing

Over the past two decades, marketing as the company's growth engine has sputtered amid increased market fragmentation, strong global competitors, product commoditization, increasingly shorter product life cycles, skyrocketing customer expectations and powerful channel members. As a result, the ability of marketing to deliver significant growth has been severely constrained and marketing productivity has declined. Not surprisingly, in many companies, doubts have begun to surface about the value of contemporary marketing.

A study of 545 U.K. companies revealed that just 18% of executives rated marketing's strategic effectiveness in their company as better than good while 36% rated it as fair to poor. Ambitious marketers are therefore finding it difficult to reach the CEO position. A 2001 study of the FTSE (Financial Times Stock Exchange) 100 index firms in the United Kingdom revealed that just 13 chief executives had marketing backgrounds compared with 26 who rose through finance. The study also found that the number of CEOs from marketing backgrounds had declined over the past three years. Furthermore, even in consumer goods companies that presumably value marketing efforts, accountants outnumbered marketers as CEOs.

True, some companies have had unrealistic expectations of marketing given the more competitive landscape. Still, many CEOs, unable to count on their marketing departments for results, have had to turn instead to operations and finance, cutting costs and reengineering the supply chain to increase profitability and mergers and acquisitions to grow revenues. Consequently, marketing's share of voice at the corporate level has declined. Research now demonstrates that, at large companies, only 10% of executive meeting time is devoted to marketing.

Getting Marketing Back on the CEO's Agenda

In a survey of CEOs conducted by The Conference Board, nearly 700 CEOs globally were polled about the challenges facing their companies. CEOs identified "customer loyalty and retention" as the leading management issue ahead of reducing costs, developing leaders, increasing innovation and improving stock price, among other issues. This survey clearly reveals that CEOs already see their most important challenges as marketing ones. It's perhaps that they just don't believe that marketers themselves can confront them. The marketing function may have lost importance, but the importance of marketing as a mind-set is unquestioned in firms. But true market orientation does not mean becoming marketing-driven; it means that the entire company obsesses over creating value for the customer and views itself as a bundle of processes that profitably define, create, communicate and deliver value to its target customers.

If one believes that everyone in the organization should help create customer value, then obviously everyone must do marketing regardless of function or department. In fact, most of the traditional activities under the control of marketing, such as market research, advertising and promotions, are perhaps the least important elements in creating customer value.

The accounting department is marketing when it develops an invoice format that customers can actually understand. The finance department is marketing when it develops flexible payment options based on different customer segments. The human resources department is marketing when it involves frequent flyers in helping select in-flight crew. The logistics team is marketing when it calls on a major customer to coordinate supply chains. The operations department is marketing when its receptionists smile at guests during hotel check-ins. In all these activities, what role does the marketing department typically play? None. And so, substantial reductions in the size of marketing departments may be simultaneously associated with a greater number of marketing activities performed and a higher market orientation throughout the company.

Three mutually reinforcing changes are enabling faster and more coherent coordination of the customer value-creating activities within organizations. First, companies are thinking in terms of processes rather than functions. Second, they are moving from hierarchies to teams. Finally, they are substituting partnerships for arms-length transactions with

EXECUTIVE briefing

CEOs are frustrated by marketing's inability to deliver results. Has the profession lost its relevance? It is argued that, while the function of marketing has lost ground, the importance of marketing as a mind-set geared toward customer focus has gained momentum. Here we challenge marketers to change their role from tactical implementers of traditional marketing functions—the tactical 4 P's—to orchestrating organization-wide, transformational initiatives aimed at profitably delivering value to customers.

suppliers and distributors. The tightly specified, vertical, functional, divisional and closed organization is slowly becoming relatively loose, horizontal, flexible, dynamic and networked.

The evolving networked organization demands that functional specialists and country experts learn how to communicate with other functions and nationalities. Consequently, organizations are emphasizing integration over specialization. But the traditional marketing department has systematically prioritized specialization over generalization, rewarding its academics and practitioners alike for knowing more and more about less and less.

In all its specializing, marketing has not aspired to lead major transformational projects that involve cross-functional, multinational teams sponsored by the CEO. Other functions have rallied around transforming initiatives such as Total Quality Management (TQM) and reengineering led by operations, Economic Value Added (EVA) and Mergers and Acquisitions (M&A) guided by finance and the Balanced Scorecard driven by accounting. What, if anything, can marketing do?

Marketing as a Transformational Engine

It is my contention that for marketers to capture the imagination of their CEOs, they must break from the tactical four Ps and associate instead with organization-wide transformational initiatives worthy of the CEO's agenda. Only initiatives that are strategic, cross-functional and bottom-line oriented will attract the CEO's attention and only by leading such initiatives will marketers elevate their role in the organization.

Since CEOs can focus on only a few major initiatives at any given moment, they usually choose those that require improvement on multiple dimensions simultaneously—greater service, lower costs, improved quality, greater customization and more focused communications. So marketers should target problems that involve multiple products, countries, brands, channels and/or functions.

A cross-functional orientation requires marketers to understand the entire value chain thoroughly, including engineering, purchasing, manufacturing and logistics, as well as the enabling functions of finance and accounting—and not simply advertising, promotion and pricing. Only by deeply understanding all other functions can marketers guide activities across the entire value chain. Transformational marketing efforts should focus on initiatives that:

- profitably deliver value to customers
- require a high level of marketing expertise
- need cross-functional orchestration for successful implementation
- are results-oriented

The CEO's Marketing Manifesto

My argument is that the CEO's Marketing Manifesto should seek organization-wide transformational initiatives that marketers could lead. These initiatives need to pass the three tests outlined previously: they must be strategic, cross-functional and bottom-line oriented. I will outline five such initiatives.

From Market Segments to Strategic Segments

Traditionally, marketing has relied on market segmentation and marketing mix to create differentiation. Market segmentation is the process of dividing the market into clusters of customers in such a way that each market segment is best reached through a unique marketing mix of the four Ps. However, creating differentiation across segments exclusively through the four Ps is too limiting. Instead, marketing needs a framework, which I call 3 V's, that inspires greater strategic insights, that examines the cross-functional implications of serving different segments of customers and that allows an identification of where, deep in the organization, any differentiation is being created.

To meet this need, I propose the concept of strategic segments. To create meaningful differentiation through strategic segments requires dedicating unique value networks to serving individual strategic segments. Value network, sometimes also referred to as value chain, is the orchestration of all marketing and non-marketing activities necessary to create value for the customer. Replicating a value network is more difficult than copying a marketing mix. Therefore, the concept of strategic segments helps identify opportunities for deep differentiation.

For example, consider the low cost carriers such as easyJet and Southwest, who compete for the segment that pays out of its own pocket in contrast to the flag carriers like British Airways or American Airlines who compete for business people, who are on corporate accounts. As Exhibit 1 demonstrates,

easyJet has systematically redefined each component to deliver low prices at a profit. It achieves distribution savings of about 25% over other full-service carriers by not using travel agents, encouraging Internet sales, not participating in industry reservation systems such as Sabre and ticketless travel. It spends 10% of its budget on marketing, but gets a much bigger bang for the buck by having in-your-face, attention-grabbing, opportunistic advertising that generates loads of free publicity. In addition, through the use of a sophisticated yield management tool it can maximize the revenues for each flight based on dynamic matching of supply and demand. As demand for a flight goes up, prices increase and vice versa.

While the transformations in the marketing and distribution components are important, much of the savings in its value network is generated through radically streamlined operations. EasyJet's operations are optimized for low costs through fast turnaround (the amount of time the plane is on the ground between flights) and greater utilization of airplanes. The exclusive use of a single type of airplane, the Boeing 737, reduces spare parts inventory, as well as training costs for pilots and maintenance personnel. Companies in the airline industry therefore have to choose which strategic segment to serve as they require dedicated value networks and running two networks simultaneously is impossible.

The transformation from market segments to strategic segments helps marketing address CEO-level questions regarding segmentation such as: Can one organization serve two different segments? Where in the value network is differentiation necessary to serve the varied segments?

Exhibit 1

easyJet versus Flag carriers on 3 Vs

	Flag Carriers	easyJet
Valued Customer	Everyone, especially business class	People who pay from their own pockets and some who don't fly
Value Proposition	Flexible Full service High prices	One-way fares No frills Low prices
Value Network Purchasing	Integrated	Outsourced
Operations	Multiple planes Short- and long-haul travel Worldwide network	Single type of plane Short-haul routes Select destinations
Marketing	Segmented customers Varied meal services Frequent flyer program	Treat all customers the same "Focused"
Distribution	Travel agents /All channels	Internet / Direct sales only

When is differentiating on the four Ps enough? How can one distinguish between strategic segments versus market segments?

From Selling Products to Providing Solutions

In a global marketplace, customers are awash in supplier choices and differentiation based on products is usually unsustainable. The traditional marketing technique of simply offering another standard product under a "brand name" is currently inadequate to lock in customers. Today, customers are time starved, impatient and demanding. They presume product quality and demand solutions, personalization, meaningful choice and easy-to-do-business-with companies.

Solution selling creates many challenges that tend to land on the CEO's desk: How can we move the company's mind-set from developing "better" products to solving customer problems? How can we obtain company-wide coordination from the different parts of the organization that have traditionally competed against each other? How can we assess the value of solutions for customers and then subsequently price such solutions?

Firms aspiring to sell solutions also encounter challenging dilemmas in creating true customer solutions and maintaining profitability. At some stage, solution-selling firms have to confront the reality that impartially serving customer needs may sometimes demand incorporating competitors' products and services into the solution. In addition, delivering solutions entails significant additional customization costs for the seller, while many solution customers often believe they are entitled to volume discounts.

From Declining to Growing Distribution Channels

Distribution channels today are in flux. Many traditional channels are declining and innovative new ones are emerging. The Internet's rapid development has accelerated the number and diversity of distribution channels by introducing concepts such as Amazon, Google, eBay, expedia and iTunes. Most of these new online and offline channels are technology intensive and their competitive advantage over existing channels usually involves superior efficiency and greater reach. In some extreme cases, such as music, the efficiency and reach of online distribution has disrupted the entire industry's business model.

Traditionally, industries such as automobile and financial services as well as companies such as Caterpillar and Delta have stressed their loyalty to existing channels and have opposed changing their distribution structure. For example, consider the automobile industry, where products have changed dramatically over the past hundred years but distribution has remained essentially untouched. Furthermore, like many existing distribution networks, automobile dealers are protected by tight contracts.

Since distribution structure decisions are relatively long term and have legal ramifications, channel migration requires

firms to confront a number of issues that pique CEO interest. Should the firm be an early entrant or a fast follower into new channels of distribution? How can it migrate into new distribution channels while managing existing ones? How can the firm manage the ensuing channel conflict? Which industry players are best positioned to exploit new channel opportunities?

New distribution channels present a dilemma for a company. During the transition period, despite the rapid growth in new channels, existing channels still account for the lion's share of the industry and the company's revenues. Moving too fast into the new distribution formats can unleash destructive channel conflict. On the other hand, hesitancy can lock companies into declining distribution channels and high distribution costs.

From Branded Bulldozers to Global Distribution Partners

Beyond new distribution formats, existing distribution channels have consolidated and become increasingly sophisticated. FMCG (Fast Moving Consumer Goods) companies, including the most famous household names, have been taken aback by the dramatic reversal in their fortunes due to the retailers. Historically, retailers were local, fragmented and technologically primitive; and, as such, powerful multinational manufacturers such as Coca-Cola, Colgate Palmolive and Procter & Gamble behaved like branded bulldozers, freely pushing their products and promotion plans onto retailers, who were expected to accept them subserviently.

Within a span of two decades, all this has become history. The largest retailers, such as Carrefour of France, Metro of Germany, Tesco of the United Kingdom and Wal-Mart of the United States, have global footprints. The worldwide revenues of these retailers exceed those of the large branded manufacturers and the retail industry is still in the early consolidation stage. As retailers have bulked up, they have moved from a position of vulnerability to one of power relative to their suppliers. This shift in power and the global purchasing practices of retailers has brought enormous price pressure on the most sophisticated of all marketers—the leading consumer packaged goods manufacturers.

The brand management system that worked so well in the past seems ineffective in dealing with large, professionally managed retailers. The typical brand manager is too inexperienced, too narrowly focused on the brand, too short-term oriented, as well as lacking the internal authority and resources to be a strategic partner with the purchasing counterpart at a global retailer.

The transformation required of manufacturers is from being branded bulldozers to global distribution partners with powerful distributors. The volume sold through global retailers demands CEO participation in these partnerships. For example, Wal-Mart alone accounts for about 15% of Procter & Gamble's worldwide turnover. Developing global manufacturer–distributor partnerships raises many issues, including how to generate trust, how to manage global retailer demands and how to develop global account management structures that provide an efficient and an effective interface.

The global account management dilemma for manufacturers is that prices for their nearly identical products can differ by as much as 40% to 60% between countries. Global distribution partners make such manufacturer products and prices "naked" by demanding a single worldwide price. Unfortunately, for most manufacturing companies operating in numerous local markets, customer ignorance was their biggest profit center!

From Market-Driven to Market-Driving

At the top of every CEO's agenda is growth through innovation. CEOs understand that, without innovation, companies risk their future growth and profitability and so they devote considerable resources to launching new products. An estimated 30,000 new products are launched in the United States each year in the packaged goods industry alone. Despite the $20 to $50 million average cost of a product launch, approximately 90% of new products fail.

Sadly, most of these launches involve incremental innovations such as new product lines for the company, line extensions such as new flavors, or improvements to existing products. Less than 10% of all new products are truly innovative or "new to the world."

Marketers unfortunately make two errors in pursuing the CEO's innovation agenda. First, marketers tend to interpret innovation narrowly as simply new product development. Second, most marketers believe that new product development starts with consumer research, but this market-driven approach usually results in incremental product innovation rather than truly breakthrough business concepts.

CEOs are insisting that their organization think of innovation beyond new products, services, or even processes. More specifically, their mandate is to generate radical market-driving concepts, such as NTT DoCoMo's i-mode, Sony's PlayStation, Nestlé's Nespresso and Zara's catwalk fashions at cheap prices—products that change an industry's rules and boundaries.

CEOs Lead from the Front, Not the Top

The transformation from market-driven to market-driving asks questions essential to the CEO's agenda of changing

an industry through innovation. What processes encourage radical innovation? What marketing strategies do we need for market-driving innovations? How do we manage simultaneous incremental and radical innovation?

The dilemma with market-driving is to strike the proper balance between satisfying current customer needs better through market-driven processes and creating new market demand through market-driving processes while not being too far ahead of customers.

CEOs are not alone in their frustration. Behind closed doors, marketers will likely complain that their CEOs do not understand the marketing function and do not sufficiently engage in the sales and marketing processes; or that others see them as a big cost center, a means of keeping up with the competition; or that marketing is like a charity: well funded in good times but the first to be cut in the bad.

Many marketers feel that CEOs have unrealistic expectations about what marketing can do and do not sufficiently elicit marketing's input into corporate strategy. Promotions—that is, price cuts—often proliferate because marketing must sell whatever the factory produces. This is common in the automobile industry. The leadership at Chrysler, Ford and General Motors has not addressed fundamental issues such as surplus manufacturing capacity, overlapping brands and product differentiation. Without built-to-order systems, tension thickens between car salespeople who have to move current stock and consumers who want exactly what they can imagine—not what stands on the showroom floor.

Some CEOs erroneously believe that hiring world-class marketers from other companies will turn their company into a market-driven one but they cannot simply graft marketing expertise into an organization that is not already market-oriented. Companies like Unilever and Nestlé have great marketers on staff, but their marketing succeeds because the whole company, including the CEO, focuses on customers.

Unfortunately, CEOs often lose touch with their customers. One CEO of a major car company had never bought a car at a dealership and therefore could not understand customer frustration. Contrast that with Henry Ford's sensibility: "When one of my cars breaks down, I know I am to blame."

Beware of Make-Believe Marketing Metrics

To get respect, some marketers have rushed to quantify each activity in terms of profitability and shareholder value. After all, what cannot be measured, cannot be managed, let alone add value, right? Yet, we must avoid make-believe metrics. We can more easily measure the effects of promotions on sales and profits than those of advertisements, but that does not mean that we should rely more on promotions. Coca-Cola would not be a globally recognized brand today without a century's worth of advertising.

Everyone in the organization, including marketers, must be bottom-line oriented. If profits fall short, then the company cannot continue serving customers or attracting resources to serve even more customers. While sales and profits tell us how well the firm has performed in the past, we must add indicators—marketing metrics like brand equity, customer satisfaction and customer loyalty—that inform us about the company's current health and its prospects. The CEO plays an important balancing role. Robert E. Riley of Mandarin Oriental Hotel Group noted, "As managing director, I take ultimate responsibility for the brand—as any CEO must… In every organization, ultimately the CEO must decide on the final balance between short-term financial objectives and the requirement to build the brand with a long-term perspective."

By building and using metrics that matter, one can clearly connect investments in marketing to the ultimate goal of satisfying customers profitably. These marketing metrics should help address important questions about the company's marketing effectiveness—such as: Are we servicing our customers better? Have we truly differentiated in a clearly visible way that matters to customers? Is our differentiation generating profits for us? Does our price premium reflect the additional value delivered to customers? Are we satisfying our customers better than our competitors? Are we exploiting market opportunities faster than others? Do our people understand how we create value for the customers? Must distributors carry our products to maintain legitimacy in the industry? These questions will help a firm understand how well marketing is performing.

Gain Foresight Not Hindsight

In the 21st century, marketers face the challenge of change. Power in organizations is moving away from those with marketing expertise tied to specific countries and industries. As industry and national boundaries are blurring, the ability to think across industries, transcend culture and find universals are emerging as the new necessity. The demand from CEOs is for foresight rather than hindsight, for innovators, not tacticians, and for market strategists, not marketing planners. Marketers must learn to lead with imagination driven by consumer insight and not rely on market research for predictions. As marketers, are we ready to face these challenges? We have nothing to lose except hierarchies, national and functional boundaries and, most of all, the four Ps. ■

Author's Note:

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