High Performance Marketing in the 21st Century

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As we approach the millennium, the marketing function is under intense scrutiny and escalating criticism from many quarters. CEOs are questioning whether marketing adds value to the corporation and its shareholders commensurate with its costs. Several respected consulting firms have weighed in with analyses suggesting that the marketing function is seriously failing in its fundamental objectives. The marketing academic community is introspectively contemplating the state of the discipline, the soundness of its intellectual foundations and its *raison d'être* within the corporation.

While many factors contribute to a sense of marketing malaise, we believe that one important factor is that the marketing function has paid inadequate attention to the vital issue of productivity: the ratio of marketing output over input. On the input side, much of marketing's spending has been driven by incrementalism (adjustments to previous years' spending levels) and parity-seeking with competitors. On the output side, marketing has long professed an inherent lack of accurate measurability in many of its key outputs.

Marketing productivity as we define it includes both the dimensions of efficiency (doing things right) as well as effectiveness (doing the right things). Ideally, the marketing function should generate loyal customers at low cost. Too often, however, companies either create loyal customers at unacceptably high cost (for example, through excessive reliance on an internal sales force), or alienate customers (as well as employees) in their search for marketing efficiencies (as is the case with most outbound telemarketing programs in the US). In far too many cases, the marketing function accomplishes neither (for instance, the indiscriminate use of price-oriented coupons or loyalty programs).

Marketing needs to pursue the ideal of effective efficiency in all of its programs and processes; neither objective is adequate by itself. This ideal guides our identification of the ways in which marketing productivity can be improved.

When it comes to changes in how the marketing function is defined, organized and compensated, 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. Early indicators of this are readily available. The astronomical valuations placed on firms with Internet-based marketing models, such as Amazon.com, Yahoo and eBay, are clear indications that the surest route to wealth creation in the future will be the creation of new ways of matching customers and suppliers that are superior, by an order of magnitude or better, to traditional models of marketing on both efficiency and effectiveness.

Some of the most valuable companies in the world today possess few tangible assets; many even possess very little by way of intellectual assets. America Online and Intuit are examples of companies that have created enormous wealth simply by virtue of acquiring and retaining a large base of valuable customers. These companies have created so much escalating value for their customers that they are, for all intents and purposes, happy hostages.

In this two-part series, we outline a number of ways in which the marketing function will need to change to deliver effective efficiency.

New Ways of Budgeting for Marketing

The budgeting process is probably one of the biggest contributors to marketing's problems (as it indeed is in many other aspects of business). Budgeting is static, forecast-driven (based on notoriously inaccurate forecasts subject to intense and deliberate distortions and game playing), counter-intuitive (mixing cause and effect in advertising, for example) 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, in which 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 that the marketing budgeting for a brand be decoupled from the current revenue level of the brand, and be coupled instead to the opportunity for revenue and profit growth that the brand presents. In situations where more traditional budgeting procedures persist, managers need to be given direct incentives *not* to fully use their budgets, just as farmers in the US are often given incentives not to plant crops.

New Ways of Organizing the Marketing Function

Senior management needs to reconsider how to control and integrate the marketing function for best results. Specifically, the sales-marketing-customer service separation must end. Marketing should be accorded greater say over key decision areas, such as procurement, pricing and product development, all of which have been gradually taken away from marketing departments. Marketers need to understand how the marketing function's role should be fitted into a corporation where virtually all functions have become market-oriented.

The marketing function in the future 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 that of a "doer" to a coordinator of internal and external resources pertinent to customer retention and profitable growth. Procter & Gamble's CBD (Customer Business Development) redefinition of the sales organization accomplishes precisely this.

An extremely important change will be the deployment of information technology to integrate the front office function of sales and customer service with each other and with marketing. Already, a number of software companies (such as Siebel Systems) have emerged that are defining themselves as "front office" specialists. The availability of these enabling tools is causing many companies to fundamentally rethink how these activities are organized and interlinked.

The marketing function will also, in a more deliberate way than has occurred so far, 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. This is already happening in industries such as automobiles.

New Ways of Thinking About Markets

One of the biggest gaps that remain in marketing know-how is an understanding of the determinants of market growth. Marketers must attempt to grow the total market, not just try to protect and grow market share. Several factors can contribute to market growth: an emphasis on emerging markets (for example, rural markets for many consumer products in India are growing much faster than urban ones; witness Hindustan Lever's growth in villages). It can also be achieved through 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). Many commodity markets in India may be ripe for dematuring, through the introduction of packaging, processing and other value-adding functions.

A second point is that with increased fragmentation of markets and regionalization of demand, most markets cannot be viewed in an aggregate manner. In India, regional markets and brands are particularly strong; in fact, the number two brand in many states is often a regional brand. The concept of mass markets is thus slowly disappearing. Marketing has already started addressing this issue through mass customization strategies. With better information and lower costs of computer memory and processing power, this trend will undoubtedly continue.

New Ways of Thinking About Customers

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. In addition to the outsourcing of customers (e.g., using business partners to serve certain customer groups), companies also need to think about trading of customers, the sharing of customers, the firing of customers and the outright sale of customers. Another potentially interesting concept is that of branding customers. Customers could brand themselves, and then invite companies to bid for their business. Alternatively, companies could brand customers, as already occurs in an indirect sense through the use of databases to classify customers into tiers of attractiveness.

New Ways of Thinking About Marketing Information

In *20/20 Vision,* Stan Davis & Bill Davidson proposed that companies generate "information exhaust" through their ongoing transactions and relationships with customers. In years past, most of this exhaust was discharged into the atmosphere and disappeared. Smart companies, however, have developed ways to "turbocharge" the core business by creatively harnessing this information flow. Through feedback mechanisms, this can allow the marketing "engine" to operate at a higher level of efficiency. Information exhaust can also 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 in the US sees the potential for substantial synergies across its automotive, consumer credit and mortgage businesses. Indian conglomerates such as the Tatas could realize similar synergies through information-sharing.

Firms can use this thinking to guide strategic decisions on entry into 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 that can then be used to improve the core business. Similar examples can be found in the magazine and software industries. Given their potential value, it is imperative that firms develop sound mechanisms in place for information sharing and marketing knowledge management. Marketing employees need to be given incentives to share information that they possess that could be of broader value to the corporation.

New Ways of Measuring Performance and Incentizing Marketing Employees

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 we impact the company's market capitalization? As mentioned at the beginning of this section, companies such as Amazon.com were founded on a new model for doing marketing, and have created enormous wealth as a result of it. 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.

In its present "unintegrated" mode, the incentives provided to marketing employees are haphazard and often at odds. Most advertising agencies are still paid commissions proportional to the volume of advertising run, though this creates a disincentive for creating 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 has to be to use market mechanisms wherever possible. The classic "Friedman Matrix" (which categorizes business spending along two dimensions: whose money is spent, and for whose benefit the money is spent) provides a simple but powerful framework for accomplishing this: organize every spending decision in such a manner that employees feel they are spending their own money for their own benefit. This will ensure that they are both effective and efficient in their resource allocation.

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