The Productivity Crisis in Marketing

Every business comprises three broadly defined areas: marketing, management, and manufacturing or production—colloquially speaking, the "finders, minders, and grinders." In the quest for greater efficiency and higher quality, the latter two functional areas have undergone fundamental, frequently wrenching changes in the past few decades:

• Manufacturing/production has become substantially more efficient (through automation, the use of just-in-time approaches, product redesign for assembly and manufacture, flexible manufacturing systems, service process blueprinting, and so on) and quality-focused. As a very rough estimate, manufacturing now accounts for about 30% of total corporate costs, down from approximately 50% after World War II.

• "Management" (defined here to include finance, accounting, human resources, and support functions such as legal departments and R&D) has raised its efficiency through "downsizing," "rightsizing," outsourcing, and business process re-engineering. As a result, the approximate share of corporate costs attributable to management has fallen from 30% to 20%.

• That leaves about 50% for marketing (up from 20%), including the costs of product development, outbound logistics, order fulfillment, selling, distribution, advertising, sales promotion, public relations, customer service, and so on.

Marketing costs more today, but it also carries more of the competitive burden. The marketing function's importance—along with the size of its budget—is increasing as companies face higher levels of competition in increasingly global markets. Its exalted status as the generator of corporate revenues, profitability, and visibility often shielded marketing from the deep cuts other departments have endured in the past decade. Indeed, though marketing is the biggest discretionary spending area in most companies, many wish they could devote even more resources to it.

But marketing's heyday may soon be over. In fact, there are already clear signs that CEOs are demanding major cost savings and a higher level of accountability from marketing than ever before. Numerous companies are downsizing the sales force and closing regional sales offices; others are downsizing the headquarters marketing function and transferring marketing personnel and functions to the sales force. In many companies, other functional areas have adopted more outward-looking customer orientations with the expectation that they will do so more effectively and economically. For example, marketing's two major traditional areas of focus—competition and customers—are now the primary concerns of strategic planning and business operations, respectively.

Improving marketing productivity has become a major concern, for several additional reasons:

• As market orientation increases, the cost of marketing goes up. More companies in more industries are becoming more market-driven (because of deregulation, privatization, greater competition, and technological change), adding huge cost centers. For example, marketing costs in the telecommunications, banking, electric utility, and health care industries have been rising rapidly as these industries move toward unfettered competition.

• A major driver of new thinking in marketing has been a dramatic surge in the sales of private label products. The growing success of such products in Europe and the United States suggests that the value-added by intensive (and expensive) marketing programs is often not sufficient to justify a price premium. This has spurred a heightened interest in what has been called "lean marketing."

• Marketing is not done just in the marketing department anymore but dispersed across all the functions. The question of who is responsible for marketing and how to account for it has become an increasingly important issue.

• There is an enormous degree of cross-subsidization across accounts in marketing; a few highly profitable accounts often hide the inefficiency in serving the rest. Such a marketing system is highly vulnerable to bypass or cherry-picking.

• Many marketing phenomena are still not accurately measurable. Without reliable measurement, meaningful improvements in efficiency levels are extremely difficult to achieve. Marketing is beginning to resemble manufacturing in the "pre-quality" days. Whereas the TQM philosophy resolved many of manufacturing's problems, a similar change still awaits marketing. Although a few writers have discussed the concept of "total quality marketing," the idea is still largely unexplored.

—Jag Sheth and Raj Sisodia

the dramatic improvements experienced in manufacturing. But it's still possible for marketing productivity to soar beyond historical levels.

In the past, marketing productivity was viewed purely in terms of efficiency. Early attempts at improvement focused predominantly on minimizing costs. This was driven, in part, by the recognition that it was difficult to measure the output of marketing adequately. But it was also driven by an implicit belief that marketing did not create value in any tangible sense and, hence, was an activity on which the minimum necessary amount of resources should be expended.

Today we have ample evidence that judiciously expended marketing resources can be tremendously productive. For example, the return on $1 of