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Can Marketing Regain Its Seat at the Table?

Frederick E. Webster, Jr., Alan J. Malter, and Shankar Ganesan

CMOs are far from complacent about marketing's role in the firm, this study finds. To secure corporate-level influence, marketing must develop tools to quantify its contribution to firm growth and profitability, reinforce its traditional strength in branding, and broaden its view to encompass not just new products, but new business opportunities.

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Report Summary

In a 1992 *Journal of Marketing* article, Webster described the forces that would shape marketing in the coming decade. In this report, he and co-authors Malter and Ganesan revisit those predictions and survey the state of marketing management today.

The picture that emerges from in-depth interviews with CEOs and top marketing executives at 12 corporations—and from a meeting of 40 CMOs—is cause for concern. Marketing today faces myriad challenges, among them the pressure to meet short-term financial goals, an inability to quantify marketing's contributions to the firm, and the shift of responsibility for marketing strategy from the corporate to the SBU level. As one CMO put it, "Marketing has lost its seat at the table."

How is marketing to regain its strategic influence? In the latter half of their report, the authors outline key challenges.

First and foremost, marketing managers must develop ways to measure marketing productivity in terms meaningful to CEOs, CFOs, and investors. Marketing will assume a central role in corporate strategy only when its long-range contributions to firm growth are recognized by top management. In this regard, recent studies that suggest ways to link marketing activities and firm performance are promising.

Further, the dominance of quarterly, monthly, or even weekly performance goals must give way to an emphasis on marketing activities as an investment in future profitability. Similarly, marketing's traditional responsibility for innovation must be expanded from a narrow focus on new product development to include the development of truly innovative new business opportunities.

Branding and brand equity—marketing's traditional stronghold—will assume increasing importance, with the growing realization that a strong brand is essential to maintaining influence with key customers, e.g., large retailers and OEMs. Brand marketers must continue to cultivate strong and dominant brands, both to assure firm leverage in working with powerful channel partners and to differentiate brands in an increasingly "commoditized" marketplace. ■

Introduction

Marketing has always been changeable, both in its conceptual and academic aspects and in its management and organization within firms. In its multiple dimensions, namely as an organizational *culture* focused on satisfying customers, its business *strategy* dictates of segmentation, targeting, and positioning, and its *tactical* dimensions of demand stimulation (including promotion and pricing), it influences business operations and financial performance in many ways. It is so closely intertwined with all aspects of the business that changes anywhere in the firm and its market environment inevitably have an impact on marketing. As the internal and external environment change, so must marketing. Textbook descriptions of marketing management are quickly outdated. Any snapshot assessment of the role of marketing will miss the essentially dynamic nature of the discipline and its relationship to the changing organizational environment.

Consider the forces impacting marketing's evolution in the last decade of the 20th century:

- rapid improvements in telecommunications and other forms of information technology, including the rise of distributed computing;
- globalization and increased competitive pressures;
- a focus on short-term measures of financial performance, especially quarterly earnings per share, movements in stock prices, and the use of stock options as a major form of management incentive compensation;
- a drive toward cost cutting, downsizing, and destroying bureaucracy in the search for greater efficiency and responsiveness to the changing market environment;
- the Internet revolution, including the boom and bust of e-commerce and the dot.coms;
- the rapid growth of discount mass merchants such as Wal-Mart, Home Depot, and Target;
- a trend of outsourcing and strategic partnering with vendors and other resource providers, leading to new organization forms.

The impact of many of these emerging forces was predicted in a widely cited article in the *Journal of Marketing* (Webster 1992). That article asserted that the field of marketing was undergoing a paradigm shift *away* from the view of marketing as an optimization problem (based on the microeconomic model) with an emphasis on product, price, promotion, and distribution (Zoltners 1981), and *toward* a conceptualization of marketing as a set of activities focused on intra-firm and inter-organizational influence processes. Marketing was seen to be moving away from a focus on transactions as the fundamental unit of analysis and toward a focus on relationships with customers and suppliers (Bagozzi 1975; Dwyer, Schurr, and Oh 1987; Frazier, Spekman, and O'Neal 1988; Jackson 1985; Womack, Jones, and Roos 1991). It was also observed that organizations were evolving from traditional hierarchical, bureaucratic forms toward more flexible networks of relationships, partnerships, and strategic alliances (Badaracco 1991; Johnston and Lawrence 1988; Powell 1990; Thorelli 1986).

Ten years later, it seems appropriate to reexamine the role of marketing in the corporation and the extent to which the forces identified in 1992, as well as newly emerging forces, have changed the practice of marketing management. During the last decade, a number of authors and forums have considered these questions from both an academic and business perspective (Achrol and Kotler 1999; Day and Montgomery 1999; Deighton 1996; Haeckel 1999; Lehmann and Jocz 1997; Montgomery and Webster 1997; Srivastava, Shervani, and Fahey 1999; Webster 2002).

Further, although scholars have discussed the alleged shrinking role and influence of marketing for more than two decades, as Merlo, Whitwell, and Lukas (2003) note, research to date has not provided empirical evidence for, nor means to track, such a decline. Our research study is a beginning attempt to provide such evidence. More specifically, the objectives of this study are: (1) to gather evidence on the nature of changes occurring in the organization and influence of marketing within corporations; (2) to identify the forces driving changes in the organization of the marketing function; and (3) to examine how marketing competence finds its way into value-creating processes of innovation, customer relationship management, and supply-chain management.

In this report, we identify changes in the role of marketing management that are occurring in a sample of large corporations and examine their causes and consequences.

In the next section we describe our methodology and present key findings, organized as eight categories. Based on these findings, we then discuss four major issues facing marketing management in the future. We conclude by reviewing the trends and developments of the 1990s, and compare those with the expectations outlined in the 1992 article.

Research Method

A number of factors influence the choice of methodology to investigate these research questions. First, in order to have a broad perspective and deep familiarity with the role and evolution of marketing in a large organization, respondents must be senior-level executives with decades of experience in their respective firms and industries. Second, the exploratory nature of this research, the complexity and subtlety of the research issues, and the diversity in the terminology used to describe marketing organization and activities suggest that a survey with standardized questions would be problematic. Rather, interactive, flexible questioning is required in order to address and clarify ambiguities in key concepts and terms. Finally, since this research seeks insights about highly sensitive strategic issues, a personal approach to data collection is required to build trust and rapport with each individual respondent. For these reasons, we adopted a qualitative approach to data collection as described below.

Data collection

We collected data from two sources. First, we conducted depth interviews with CEOs and senior marketing executives in a diversified sample of 12 corporations, including some of the largest in the world. Three firms had annual revenues of $100–200 billion, 8 of $2–100 billion, and 1 of less than $1 billion. These industries spanned consumer and industrial markets, and a mix of products and services, including automobiles, chemicals, electronics and information technology, food, household products, and toys. We also interviewed a senior manager in a leading marketing consulting firm. The executives (men and women) ranged in age from 40–70, with 20–40 years of experience in their respective firms and industries. All had advanced professional degrees (some had Ph.D.s). Some had taught marketing courses in leading business schools and authored influential management books and articles. Interviews were conducted in person or by telephone and typically lasted about one hour; interview guidelines were modified slightly as the interviewers gained experience.

Second, the senior author attended the September 2002 CMO Summit, a two-day conference sponsored by the Marketing Science Institute, McKinsey & Company, and the Wharton School at the University of Pennsylvania. This interactive forum included over three dozen senior marketing executives and a small number of academic participants. The discussions focused on the experience of these CMOs with the changing role of marketing within their corporations.

Data analysis

The findings presented here are based primarily on the executive interviews. Detailed notes from each interview, including verbatim quotes from the respondents, were analyzed using a comparative approach (Strauss and Corbin 1990) and triangulating across the interpretations of the three authors. These findings were influenced by the insights and consensus expressed by participants at the CMO Summit.

Overall, 24 themes emerged from both sources. In further analysis, related concepts were aggregated into a set of eight subject categories; these categories form the subheadings of the next section. Quotations are used to illustrate the central themes and concerns articulated by our respondents. The findings reported below represent concerns voiced by most, although not all, companies in our dataset. They are further supported by observations from the marketing literature and business press. The identities of individual respondents and their firms have been disguised to preserve their anonymity and safeguard confidential information.

Current Status of Marketing Management

Definition and scope of marketing

The definition and scope of marketing emerged as a topic of consideration for nearly all CEOs and CMOs. The first interview question, "How has marketing been changing in your company in the past three to five years?" frequently evoked a response along the lines of "That depends upon what you mean by 'marketing'." Several respondents focused on the distinction between marketing as a general focus on the customer and marketing as a set of activities related to new product development, customer account management, brand promotion, and so on.

The definition of marketing, in fact, tends to be specific to the company, often guided by the CEO. For example, the CEO of a consumer packaged-goods company said, "I have always defined marketing as brand management plus sales." Another respondent explained that in his company marketing had changed from "advertising and merchandizing" to being part of the sales and service division. A respondent in the same industry reported that marketing in his company was combined with sales and service and said specifically that "marketing is really sales." Another respondent said: "There are really two meanings to this question: How it is positioned in the company organizationally and how the company attempts to be market-driven and customer-oriented."

Many of the industrial marketers in our sample, and to some extent the non-packaged-goods consumer marketers as well, showed this tendency to equate marketing with sales. One chemical company respondent said simply: "Truthfully, we don't often differentiate between sales and marketing. It is part of the business [SBU] manager's responsibility." In a consumer durables firm, it was noted, "Marketing is much more integrated today, and marketing is much closer to sales."

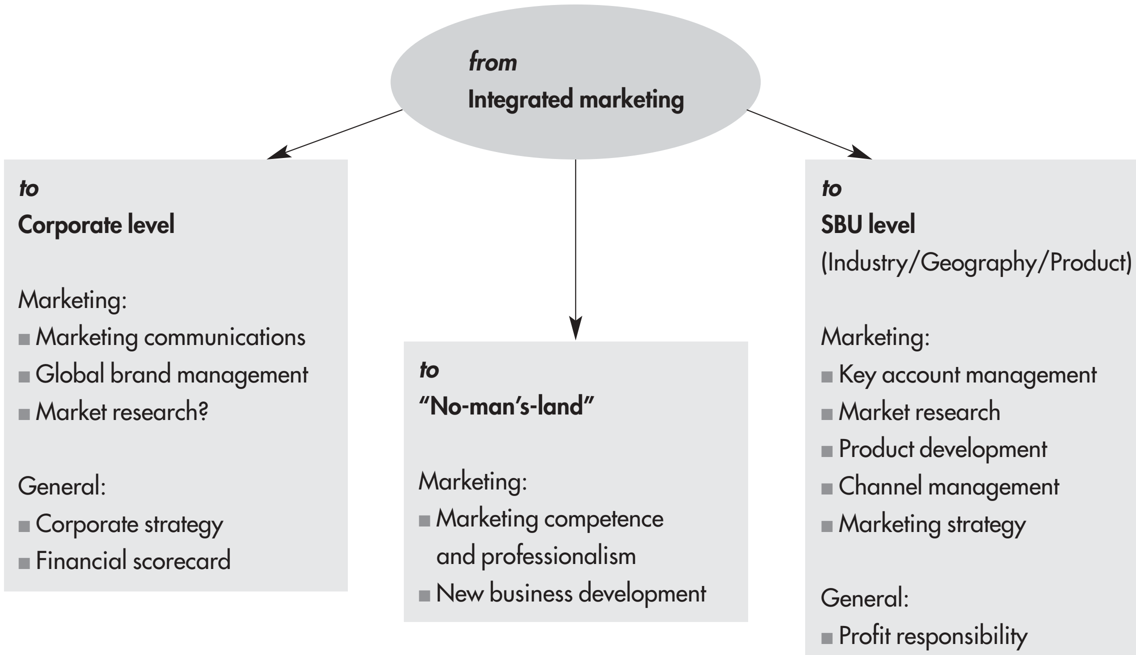
In fact, the blurred distinction between marketing and sales was a recurrent theme, and will be discussed further below. The management consultant we interviewed thought there was a very strong trend toward the integration of sales and marketing. In some of the business markets, when a distinction was made between sales and marketing, marketing's major responsibility was seen as guiding new product development. According to one respondent: "Marketing is at the front end of new product development, and the supply chain. We have a world of deeply-embedded marketing."

The thrust of these comments was that it is hard to identify people with specific "marketing" responsibility. One chemical company respondent observed, "Marketing has become new business development [defined as new applications development], primarily at the SBU level."

It is fair to conclude that the definition of marketing depends very much on the particular situation of a given firm and a specific industry.

For a management discipline with historical roots as old as those of marketing, it is surprising that there is such a lack of consensus about the definition and scope of marketing. This is a major issue in the battle for top-level management support and resources: it is hard to win budgetary support for an ambiguous

Figure 1
Shift in Marketing Responsibilities



concept with unclear responsibilities that makes an uncertain contribution to the financial performance of the firm.

Part of the confusion over the definition of marketing reflects its multiple dimensions as culture, strategy, and tactics. It is hard for an organization to conceptualize marketing simultaneously as a point of view about customer orientation that pervades the organization, a strategic emphasis on market targeting and product positioning, and a day-to-day battle for sales volume, brand awareness, and market share. Further, the notion that "marketing is everyone's responsibility" makes it very difficult to define marketing as a distinct management activity. An executive in one of the world's largest corporations (who had stated that marketing was really sales in his company) made an interesting comment: "I tell the [CEO] that he is really the one person responsible for marketing. He responds, 'Did I miss something on my way up?' He understands, but he doesn't 'get it.'"

An over-riding theme in these remarks is a bifurcation of marketing management, in which responsibility has been divided between the corporate and SBU levels.

As Figure 1 shows, marketing responsibility at the corporate level has been redefined as brand development and stewardship and overall marketing communication strategy; traditional marketing activities such as day-to-day brand management, key account management, product development, pricing, and distribution have been assigned to strategic business units. This is particularly true of market research and market intelligence function, which generally has been delegated to the operating units to be coordinated with their specific needs (e.g., new product development). Clearly, this trend has been motivated by the desire to reduce corporate-level overhead expenditures. Finally, it is important to note that some elements—such as new business development and marketing training—no longer fit neatly into either category and may be significantly diminished as a result.

"The tyranny of the P&L"

It is well known that corporate management developed a much sharper focus on financial measures of performance beginning in the

1960s and 1970s, aided and abetted by the increased importance of corporate-level strategic planning, the development of product portfolios as a management tool, and a concomitant interest in cash flows and the allocation of financial resources across the portfolio (Ansoff 1965; Buzzell, Gale, and Sultan 1975; Day and Montgomery 1983). More recently, the boom in the stock market in the 1990s, and the bear market of the recent past, have focused attention on stock prices and quarterly earnings per share as a major driver of those price movements. While these recent developments have underscored the short-term focus, it is a problem of much longer standing. One of our respondents referred to this succinctly as "the tyranny of the P&L."

In fact, respondents generally agreed that short-term financial measures of business performance dominated management decisions in their companies, and most observed that this focus had eroded strategic thinking, customer focus, and brand equity. They were also virtually unanimous in the opinion that this short-term focus had a negative impact on long-term business performance and on the effectiveness of the marketing function, specifically in terms of funds available for marketing activities.

Comments included:

There is no question that quarterly earnings per share are still the major driver.

Making the financial numbers isn't the only thing, it's everything. This has led to a more tactical, short-run, margin focus, and consequently to the erosion of strategy, consumer focus, and [brand] equity building.

There are many marketing-finance battles. Marketing is always seen as a variable cost [compared to a "committed cost"] so its budget is seen as soft money that is always in danger of being cut.

There was also agreement that this short-term focus on quarterly earnings and stock prices had reduced product innovation and investment in brand and business development. However, some respondents felt that, more recently, a longer-term focus was gaining ground and that the use of mergers and acquisitions to grow sales and earnings had largely run its course. Pressures to reduce costs were seen as producing smaller incremental gains as the opportunities for cost reduction were fewer and fewer. One respondent from a consumer packaged goods firm noted: "Firms can't grow forever through pricing and costing. The gains from increased 'productivity' are running out. Real innovation is needed to increase sales."

When asked to elaborate on this comment, this respondent noted that his firm was able to develop a whole new product category that became a key growth engine and allowed the firm to escape the "productivity trap" (at least for a while). Marketing was heavily involved in the conception and launch of this new category and received much of the credit for its success. Although this generated renewed respect for marketing in this firm and secured the continued support of top management for marketing activities, it did not reduce the corporation's focus on financial performance.

Measuring marketing productivity

Closely related to the issue of short-term financial emphasis is the widespread concern that marketing has a difficult time justifying its expenditures in terms of direct return on investment, especially as many of the desired outcomes are long-term, multi-period results that are by definition difficult to measure.

Marketing managers in our sample criticized themselves for not doing a better job of linking marketing actions to measures of profitability. Respondents noted that marketing expenditures tend to be regarded by top management and financial management as short-term expenses, not long-term investments. One respondent in a technology company said that their organization had taken the initiative in developing measures of marketing performance specifically because: "It is hard to hold onto even flat spending on marketing if you don't know which activities are effective."

It is difficult to separate cause and effect here: Do strong brands drive the investment in marketing performance measures or does the availability of good data enable better measurement and lead, in turn, to more effective marketing and the development of stronger brands? Probably both directions of causation play a role in a mutually reinforcing cycle.

Equally strong is the concern expressed by respondents that the ability to measure short-term results of marketing efforts at the retail level has led to much heavier use of retail trade and point-of-purchase promotions along with consumer price promotions which, in turn, have caused significant loss of brand equity (Mela, Gupta, and Lehmann 1997).

It is also the case that the ability to track marketing performance depends on the industry. One consumer marketer respondent noted that his company can measure the effectiveness of its advertising expenditures *daily*, using point-of-sale tracking data from each major retailer customer. Each of this company's three product divisions has its own sales research group to track marketing performance. In another consumer packaged-goods company, 13 of its 30 top retailer customers are using vendor-managed inventory systems allowing the company to manage inventories at the store and distribution center level. In this case, the company has instant access to data about product movement and the ability to relate that to specific marketing activities and expenditures.

Other consumer marketers face more difficult measurement issues. Automobile companies, for example, cannot trace the effectiveness of advertising and brand development investments with nearly the precision of a consumer packaged-goods company.

In industrial markets—with fewer customers, many fewer transactions, longer purchase decision cycles, and less direct causal relationships between marketing actions and sales results—the effects of marketing expenditures are also difficult to track. Further, as in the automobile industry, the effects of short-term price inducements are much more easily traced, which may be a major cause of the increased frequency of such tactics in recent years.

Shift in channel power

The shift in channel power from manufacturers to resellers and end-users was another area of major concern to executives. This trend is probably most obvious with large retailers such as Wal-Mart, Home Depot, Target, Loews, Office Depot, and Staples that have come to dominate the consumer marketing landscape. On the consumer marketing side, important e-commerce companies such as Amazon.com have emerged, as well as Internet-based operations of traditional direct, or catalog, marketers such as Lands' End, L. L. Bean, and Brookstone. These developments have caused major shifts in channel power in such industries as books, clothing, food, hardware, household products, music, and office supplies. It has been reported, for example, that Wal-Mart alone accounts for 17% of the revenue of Procter & Gamble, up from 10% five years ago (Hopkins 2003). The number of small, independent retailers, large traditional retail formats such as department stores, and wholesalers and distributors has been rapidly declining. One respondent in the food industry noted that there has been a steady change toward fewer but larger customers (retailers). A respondent from a consumer packaged-goods firm commented, "[We] currently serve 5–10 big customers, compared to about 1,000 distributors a few years ago—all of those small distributors [in our industry] have disappeared!"

Several other trends in both consumer and industrial markets have reduced manufacturers' channel power:

- consolidation in many industries leading to much greater concentration of buying power in fewer companies;

- evolution of Internet-based auction sites for many industrial goods and services;
- creation of buying groups in many industries including independent hardware stores, hospitals, and drug and grocery retailers;
- merger trends in distribution in such industries as chemicals and electrical and electronic components; and
- increased outsourcing and reliance on fewer vendors for a given product or service (often on a sole-source basis), resulting in much more buying power for a given customer.

Simply put, all of these forces lead to concentrated buying power and more powerful customers. The impact on product manufacturers has been to place increased importance on customer relationship management, trade promotions, and the field sales force. It also casts the role of brands in a different strategic context. Manufacturers' brands are increasingly viewed as a key element in the three-way strategic relationship among manufacturer, reseller, and end-user, rather than simply between manufacturer and consumer (Webster 2000).

Trend toward customer relationship management

There has been a significant shift toward customer relationship management as a central concern of marketing management. This is true for both consumer goods companies, where the *customer* is now defined as the retailer, not the end-user consumer, and for industrial companies, where it is not uncommon for a small number of customers to account for more than half of the company's revenue. For some companies, as few as three large customers can account for the majority of revenue. IBM has reported that 35 large customers account for more than 50% of its revenues. Each of these accounts is now the responsibility of a senior executive with broad authority to manage the relationship, including pricing and the commitment of IBM resources to solving these customers' problems.

The CEO of a major packaged goods firm reported that his six largest customers (including Wal-Mart, Target, and Kmart) account for the majority of his firm's revenue. He spends three hours every weekend in the Wal-Mart store near his home and commented that he learns much that helps him run the business: "These guys are good. Things change continuously there. Each week is different." One result of the increasing dominance of mass merchants such as Wal-Mart is that traditional grocery stores have become, in this executive's words, "over-sized convenience stores where consumers go to fill-in" until their next shopping trip to the mass merchant.

Moving resources from marketing to sales

The shift toward customer relationship management has a direct result in the allocation of resources away from mass media advertising and consumer promotions and toward field sales activity and trade promotions. As noted earlier, it has also blurred the distinction between marketing and sales. For consumer goods companies, the impact has been dramatic. In many companies with traditional brand management structures, the role of the brand manager has become focused almost exclusively on trade deals and other programs related to in-store activities designed to create immediate sales revenue in an intensely competitive environment. The executive just quoted above also noted that: "Marketing now has more to do with working with retailers and in-store stuff. Mass media has declined in importance and, in fact, nobody can define what 'mass media' means anymore."

The experience of the consulting firm executive we interviewed led him to conclude that the shift of resources from marketing to sales was the single most important trend shaping marketing management:

There is a definite movement toward integrating, combining marketing and sales. On the consumer marketing side, there is heightened emphasis on top-line revenue and market share and on sales as traditionally defined. On the business marketing side, marketing is definitely equated with sales. . . .

It used to be about 75% sales, 25% marketing. Now the ratio is 95 to 5. Marketing is being forced out of the equation. Sales is not guided by marketing strategy. It is back to the basic blocking and tackling of sales, driven by the need to hit the metrics for volume and margin.

This renewed emphasis on sales was also seen in the automobile companies we interviewed. With their labor costs more fixed than variable (as a result of long-term labor contracts negotiated in the 1990s), and with huge commitments to fund pension plans and other benefits programs, these companies have decided that they have to move unit volume (Welch 2003). The aggressive use of sales incentives, including rebates and zero-percent financing, is well-known. Marketing competence building through management training and development had been a priority for these firms through the mid-1990s, but resources have now shifted to relationships with the dealer organizations. Sales, service, and dealer support dominate marketing.

Some companies recognize the costs of this short-term focus in taking attention away from more traditional methods of brand development, and have created new organizational positions to focus on building brand equity and relationships with end-user consumers. In one consumer goods company we studied, each of six or so individual brands has become a strategic business unit, headed by a general manager, who is responsible for the brand as a business with its own P&L. Importantly, these managers are evaluated in terms of long-run performance and can lose their jobs if short-term volume gains are achieved at the expense of profit margins due to aggressive pricing and trade promotions. This discipline is enforced by the company's evaluation and reward system right down to the individual sales representative.

Global brand management and customer advocacy

In the search for greater efficiency and productivity, the size of corporate staffs has been reduced greatly in the past decade. Among those most severely cut are strategic planning (which has all but disappeared) and marketing. One consumer marketer noted that in his company, the marketing function had essentially "run the corporate bureaucracy" in the past and represented the majority of the middle management layer in the organization. Today, it is entirely gone. As one executive put it, "Marketing has lost a seat at the table." The influence of marketing at the corporate level has been significantly reduced in the past decade.

However, in a large majority of the companies interviewed, there was still a strong corporate-level responsibility for global brand management and marketing communications, often in conjunction with corporate communications. The responsibilities of the top corporate marketing executive (who typically managed a very small staff) were focused on maintaining consistency in how the brand is managed globally, continuing to build brand equity, coordinating the development of sub-brands for distinct product lines, and achieving the necessary efficiency and consistency in media purchasing and advertising agency relationships. As put by one respondent, "We want to have one message to the world about [our brand]."

This trend toward centralization is not unanimous, however. Another global company presented the argument against corporate-level brand responsibility: "Previously, marketing had become a stand-alone function. We spent a lot of time on the details of high-level marketing issues such as the global image of the [company] brand, how we wished to be positioned around the world. But we were talking to ourselves, not the customer. This sapped energy from the divisions."

In a few cases in our sample, in addition to the global brand and marketing communications position, there was another corporate marketing officer whose job was to be an advocate for customer orientation throughout the organization (although this responsibility might also be combined with the responsibility for global brand management). In one technology-oriented company, a corporate-level marketing executive, who had been recruited to lead a refocus on customer-driven strategy within the company, had successfully implemented a new strategic marketing initiative in one of the company's largest business units. As a result of this success, he was assigned to that SBU and charged with responsibility as well for developing similar programs in the company's other SBUs. Part of this initiative will be to create new branding programs for the company's technology-based products. It remains to be seen whether this person will be able to wear the two hats of an SBU manager with P&L responsibility and a corporate advocate for marketing best practice and the development of marketing competence.

Another company with a strong corporate brand in the same industry had gone back and forth on the issue of corporate marketing. In the 1980s, it had moved to a strongly decentralized SBU form of organization, described to us as very product-centric, focused on efficiency and cost reduction. P&L responsibility was given to more than 100 separate businesses organized into about 20 strategic business units. About two years ago, a senior marketing executive was brought in to improve the marketing competency of the firm and to drive marketing capabilities across the SBU structure through education, knowledge sharing, and customer advocacy. This executive believes that the brand has been neglected for the past several years and is also focusing on corporate branding and strategy. He commented:

Once corporate marketing no longer had responsibility for marketing education and developing marketing capabilities under the SBU approach, the SBUs themselves did a poor job of building marketing competency and developing marketing strategy. Each developed its own approach and there was little or no consistency. Customer orientation gave way to efficiency and cost concerns when we looked at marketing strictly from an SBU perspective. We often had many different people selling to the same customer and competing for business with different approaches. Now we are trying to sell [company/brand] solutions—a system of products. . . . The [company] brand is a strong unifying factor; it has underlying strength that is valuable to many SBUs and a source of leverage from the corporate perspective.

This comment is especially interesting because it relates the importance of the brand to the more general problem of developing marketing capability, customer orientation, and strategic consistency across the organization. It shows a clear understanding of a healthy balance between an appropriate role for marketing management at the corporate level vis-à-vis the individual business units.

Overall in our sample, even where there is renewed interest in corporate-level marketing, the focus is on branding and developing a general understanding of marketing in the SBUs and throughout the organization. Product- and market-strategy issues are the responsibility of strategic business units organized around products/technologies, end-use markets, or geographies.

Marketing moves into SBUs

A common theme, in about two-thirds of our respondent firms, was that marketing strategy responsibility had been pushed down in the organization and out into the strategic business units. Marketing strategy as a distinct function has remained at the corporate level only in those companies in our sample where the CEO has a strong marketing orientation and background. Here we found an interesting conjunction of forces, some of them contradictory. On the one hand, the corporate marketing function has been downsized. On the other hand, there does appear to be a stronger customer focus in individual strategic business units than may have existed a decade ago, an observation that we are most comfortable making for the industrial companies we examined.

Yet, there also appears to be a dearth of marketing skills to implement a customer-driven approach to the business. All of our respondents indicated that there was a stronger focus on customer relationships and account management in their companies than in the past. However, some observed that their companies tended to be product-centric and technology-driven, not customer-centric and market-driven. A few of the respondents also argued that product and technology focus was essential to the success of businesses in their industry. In the words of one, "Product is everything."

So a basic finding is that responsibility for marketing strategy with respect to products and markets is now much more dispersed throughout the organization, and is found at the levels of P&L responsibility. To quote two respondents: "Every part of the company now says, 'We are the customer interface'." "As the marketing point of view pervades the organization, marketing as a function seems destined to dwindle."

However, there is still doubt about the ability of these SBU-level managers to develop and implement effective marketing strategies. Respondents reported that they are addressing this issue in several different ways. Some, as noted above, are developing new programs of marketing management education. Others have strengthened the metrics they use to evaluate and reward marketing performance, focusing management attention on those variables believed to be the key to successful business performance. In some companies, the CEO is taking direct responsibility for developing the firm's marketing competence through such programs as customer visits, regularly scheduled product development reviews, and enhanced management recognition and rewards for superior marketing achievement.

Committing the necessary resources to developing marketing understanding, capabilities, and skills remains an issue. There is not likely to be a significant increase in the size of the corporate marketing function as a way to achieve marketing competence.

The Future of Marketing Management

To summarize and highlight our key findings: Marketing as a distinct function has evolved into a broader and more dispersed set of organizational assignments and responsibilities. The strategic influence of marketing, as previously understood, appears to have diminished as short-term revenue goals become more predominant and the role of the sales force is strengthened. Financial resources have been shifted in favor of the sales function as key customer relationships receive more attention. Marketing's inability to document the value of its strategic contribution has been a major reason for its fall from grace at the corporate level, as management responds to pressures from the financial community and from major customers and resellers with increased buying power and the ability to capture a larger share of the value created by the firm's marketing activities.

Brand strategy and marketing communications remain a key responsibility at the corporate level with a new emphasis on brands as a strategic resource for control in reseller relationships. While the importance of customer orientation is better understood throughout the organization, inadequate attention is being devoted to developing marketing competence and skills, resulting in an inability to implement strong marketing strategy at the strategic business unit level.

Our data highlight a number of sobering and serious challenges for marketing management going forward and for the future of marketing as a distinct management discipline.

Long-term vs. short-term emphasis

Marketing managers by themselves cannot shift the emphasis from quarterly earnings per share to long-term business development. This changed emphasis must originate with the top management of the firm and its investors. Anecdotal evidence suggests that such a shift may be occurring, at least in small degree. Recent, well-publicized examples of egregious corporate misbehavior in managing earnings through deceitful and illegal accounting practices have produced a strong reaction from management in all firms. Short-term results mean little if they are not part of a solid pattern of long-term profitable growth of the business. Among the most significant changes is the announcement by some companies that they will no longer publish *pro-forma* earnings.

The issue of balancing short-term and long-term interests is the central challenge facing any senior manager. Respondents in our sample often expressed the view that top management is calling for more true product innovation and sustained business growth as opposed to short-term sales gains and modest product improvements. Whether management will be able to focus on profit rather than sales volume is a very difficult question, especially in industries such as automobiles, air travel, consumer electronics, and paper where companies seem to be trapped in a classic "prisoner's dilemma" of unprofitable pricing tactics.

The marketing managers we talked with usually framed the issue as whether marketing is viewed as an investment or an expense, which has dramatically different implications for its role in the firm. Marketing managers believe that their most important expenditures represent long-term investments in the growth and future profitability of the business from brand equity, enhanced product quality, better customer relationships, and stronger pricing. However, these marketing managers also believe that most other managers, including the top management of the firm, tend to regard marketing as an expense. As one put it, "expenses" get "cut," especially under the pressures of short-term financial performance measures.

Measuring marketing productivity

This debate over marketing as investment or expense can probably not be resolved until marketing managers have better measures of marketing productivity. These measures must distinguish between long-term and short-term goals as well as long-term and short-term effects of marketing expenditures. This, in turn, raises the issue of the blurred distinction between marketing and sales. As marketing becomes more like sales with its emphasis on short-term revenue gains and sales promotion activities, sales becomes more like marketing with its increased emphasis on strategic customer relationships.

If there was clear agreement that marketing is long-term and strategic and sales is short-term and tactical, the measurement issue could be more easily addressed. Sales success would be measured by daily, weekly, and quarterly changes in sales volume, market share, profit margin, reseller stocking levels, and so on. Marketing success would be measured by long-term trends in customer awareness and attitudes, brand and customer loyalty, annual and longer-term changes in sales revenue, profit as a percentage of revenue, total profit, cash flow, return on investment, and stock prices, including the correlations among these various measures.

At a minimum, marketing planning must be more rigorous in tying its analysis to financial outcomes based on careful assumptions about the influence of marketing activities and a better understanding of how they impact the profit-and-loss statement and the balance sheet. Important market research studies to address the relationship between marketing investment and financial measures of performance are beginning to appear (Gupta, Lehmann, and Stuart 2001; Mizik and Jacobson 2003; Rust, Moorman, and Dickson 2002). Our analysis leads us to conclude that the issue of measuring marketing productivity is the number one problem facing marketing management as it seeks to regain its "seat at the table" and to secure the financial resources and management support necessary to achieve its potential to contribute to the success of the organization.

Innovation in products and strategy

Some of our respondents believed that top management was disappointed in the level of innovation in their firms, for which they held marketing at least partially accountable. One CMO Summit presenter cited field research leading to a conclusion that CEOs wanted marketing "to play a more active role in new *business* development" whereas the CMOs were more narrowly focused on new *product* development.

The issue of innovation is related to most of the issues discussed earlier, not just short- vs. long-term perspective but also the distinction between marketing and sales, the commitment of resources to marketing, marketing as investment vs. expense, whether the firm is market- or technology-driven, and top management support for marketing and the customer point of view. Marketing managers under intense pressure to produce the numbers on a weekly, monthly, and quarterly basis are going to find it difficult to make the commitments of time and money necessary to develop truly innovative new business opportunities. New types of marketing organizational capabilities must be created to facilitate the required shift in emphasis.

Building brand equity

Despite the financial and organizational pressures placed on marketing in the past decade, brand equity and the strategic importance of branding have remained a stronghold of the definition and scope of marketing. The correlation of brand strength and firm value is being studied more closely and documented more carefully than before (*Business Week* 2002; Lebar and Bergesen 2002). Marketing scholars are building models of brand equity that relate brand development, marketing programs, and customer response to the long-term value of the firm (Keller 2001). There is mounting evidence that large corporations are using these models in the development of their marketing and branding strategy in a new business environment that is focused on increasingly strong channel partners and financial pressures. There is also a growing realization that the brand encompasses more than a relationship with the end-user; it is a business asset for the retailer or for the industrial customer who incorporates the branded product as an ingredient in their product offering. A strong brand is an essential tool for maintaining influence in the relationship with key customers.

One of the CEOs we interviewed reported that his firm's position with the leading mass merchants was safe because his company had one of the best-known brands in the world that could be used as leverage to offset the power of his largest customer: "Yes, we need Wal-Mart. But Wal-Mart also needs us because they cannot run their [blank] department without [our brand]. But the big retailers don't need small brands at all; they'll squeeze the small brands so much on price that they won't be profitable."

Brand marketers will face increasing pressure to have really strong, dominant brands; otherwise, they will not be able to afford the costs of branding and differentiating products in a marketplace that trends inevitably toward commoditization.

Reprise: Expected versus Actual Changes since the Early 1990s

Our data allow us to compare the current status of marketing management with what was predicted in the early 1990s (Webster 1992). That 1992 *JM* article predicted the following trends:

- A move from product-centric, internal focus on company needs to a customer-centric, external focus as called for by the original "marketing concept."
- An expanded role for marketing, integrating customer focus and responsibility for delivering customer value throughout the organization, rather than seeing marketing as the sole responsibility of a few specialists.
- A shift away from transactions as the unit of analysis toward longer-term buyer-seller relationships, placing more importance on the firm's relationship management skills.
- The evolution from bureaucratic, hierarchical

organization to more flexible forms including networks of strategic partnerships with customers and vendors, strategic alliances with resellers and technology providers, and joint ventures.

From product- to customer/market focus

Customer orientation as a strategic focus appears to be more widely accepted than it was a decade ago, but achieving it is still a struggle. Many respondents reported that their companies were still product-focused in practice, especially in the more technology-driven companies. For example, it is still widely believed in the automobile industry that "the product is everything" and there is open skepticism about the value of customer-focused research to guide new product development. At the same time, it is now a much more common practice to have market research activity located in new product development groups rather than as a separate corporate function, as part of the effort to achieve stronger customer focus. So, the general notion of customer orientation is now widely accepted even as considerable difficulties in implementation remain. Our data suggest that the strength of organizational commitment to customer focus is highly dependent upon the mindset and advocacy of the CEO.

The role and function of marketing

In the early 1990s, it appeared that the role of marketing was destined to expand and increase in importance throughout the organization. However, it now seems clear from our respondents that the "marketing department" has declined in size and scope as a separate business function. Every respondent noted the pressure on marketing budgets and the decline of integrated marketing as a clear functional responsibility at the corporate level. Marketing at the corporate level has typically been narrowed to a primary concern with marketing communications and overall corporate brand management.

It is less clear from our sample of companies that the responsibility for integrated marketing has been successfully delegated to strategic business unit leadership or that marketing competence has been easily transferred once corporate stewardship for marketing decreased or was eliminated altogether. A related issue is the definition of marketing itself. Our interviews show that this tends to be specific to a given organization, influenced by its industry setting, the vision of its CEO, and the historical development of marketing within the firm. It is very difficult to clearly define the role of marketing within the organization without a consensus about its definition and scope.

From transactions to relationships

There is little doubt that long-term supplier-customer relationships have become more important in the past decade, in both consumer products and industrial products markets. The cause as well as the result has been substantially increased buyer power in the relationship and a greater concentration of revenues for marketers and buying dollars for customers. In the academic literature, buyer-seller relationship management has developed as a major sub-discipline.

In 1992, Webster stated that: "…traditional selling functions for the organization are evolving toward a broader definition of responsibilities for relationship management, assisted by interactive information management capability" (p. 15).

Our respondents provide strong support for this trend as seen in the increased allocation of resources to field sales, key account management, and trade promotion activities and increased decision-making authority delegated to field sales management. The increased concentration of buying power and revenues in fewer, larger customers has had both positive and negative consequences on both sides of the relationship. Various studies have reported that such long-term relationships can result in lower profit margin on the business for the supplier but an increase in total dollar profits and cash flow from these customers (Anderson, Fornell, and Lehmann 1994; Day and Van den Bulte 2002; Rackham and DeVincentis 1999; Reichheld

1996). On the buyer side, it results in lower prices but also can lead to a higher risk of product supply interruption and other difficulties, especially in sole-source procurement situations.

Has a greater focus on relationship management really transformed marketing? Many long-term relationships in industrial markets can still be characterized as more like a string of transactions than a true strategic partnership. Customers continue to solicit competitive or negotiated bids from multiple vendors, using the Internet and other information services to obtain up-to-the-minute price and availability information on a global basis. It can be argued that this is an important source of the cost pressures that have led to reduced expenditures on marketing, more emphasis on sales and key account management, and increased financial pressures on firms to cut costs. While transactions in their pure market form are probably less prevalent and ongoing relationships are more important than they once were, it is also true that many of these relationships are based more on traditional adversarial buyer-seller attitudes than the more cooperative behaviors that were initially thought to be characteristic of long-term buyer-seller relationships.

From hierarchy to alliances and networks

The hierarchical, bureaucratic organization with multiple levels of functional staff specialists has been in decline for at least the past two decades. Some of the best-known CEOs have reported on their struggles to evolve their organizations away from slow-moving bureaucratic monoliths into more flexible, responsive units (e.g., Gerstner 2002; Welch 2001). While these corporate leaders have succeeded in changing the structure of their organizations, the beginning of which was observed in the 1992 article, they have found it much harder to change the traditional bureaucratic culture. Their experience shows that flattening an organization's structure does not necessarily change its culture. In every case, beliefs about customer orientation versus product orientation are at the heart of the organization culture and among the hardest elements to change.

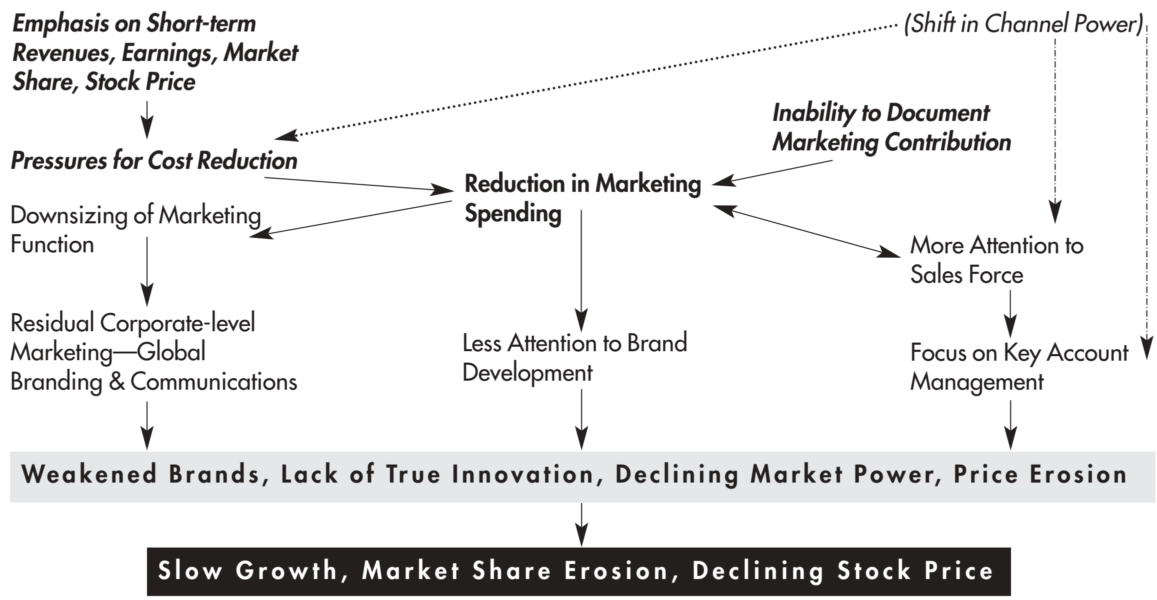
Our respondent firms provide confirming evidence of this evolution. Outsourcing has clearly become a common practice as firms sharpen their focus on particular functions in the value-creation and value-delivery process. The welfare of most of our respondent organizations, in both consumer and industrial markets, is highly dependent upon the welfare of strategic reseller and vendor partnerships. Yet as noted above, many firms in our sample still have not embraced cultural change in conjunction with structural change.

Concluding Observations

Broadly speaking, our data suggest that the firms we have studied can be classified into two categories: those where marketing is successful and those where it is not. By *success*, we mean that marketing has a clear role in the organization, and that there is consensus about its scope and its contribution to the performance of the business. There are clear indicators of that success such as sales and revenue growth, customer loyalty, strong brand equity, and a dependable flow of innovative products. In these firms, marketing has retained a seat at the table and remains a strong influence on corporate strategy and operations.

Marketing is considered to have failed, to a large degree, in companies where management has been focused on stock price, growth in earnings per share, cost reduction, market share, and sales volume. Growth in these companies has often been achieved primarily through mergers and acquisitions instead of internal growth and innovation. These companies maintain a strong product (versus customer) focus, even though the acquisition strategy may have been targeted at acquiring strong brands. The CEOs of these companies tend to have little or no marketing experience. They are still struggling to find new ways to reduce costs and increase productivity per unit of labor and dollars invested. Pressures for cost reduction, combined with the inability to document the contribution of marketing to

Figure 2
Emphasis on Short-term Revenues, Earnings, Market Share, Stock Price



corporate performance, have often led to a reduction in marketing spending and a downsizing of the marketing function. Attention has shifted away from longer-term brand development and more toward the field sales force and key account management, and these shifts are associated with a wide range of negative outcomes. In these firms, marketing has lost its seat at the table and exercises very little influence over strategic corporate decisions. One view of this process and some of the outcomes for firms in our sample in which marketing is relatively weak are depicted in Figure 2.

In contrast, where marketing has been successful and remains influential, we find that there is usually a CEO with a strong marketing background, or a deep understanding of it, and a compelling vision of how to deliver superior value to customers. In these companies, there is adequate marketing information, such as tracking data on market share, brand attitudes, sales volume from major customers, and margin by account, to assess marketing performance.

Marketing bureaucracy is minimal in these companies. Strong marketing is no longer associated with a big marketing department. A customer-back, market need, and applications focus is hard-wired into the new product development process, whether they are consumer or industrial products companies. The company is more committed to long-term growth than to short-term earnings performance. The role and influence of marketing in firms with these characteristics has generally remained strong and influential *despite* the shift in channel power and other external forces that have been shaping the role of marketing for all firms over the past decade. The contrasting characteristics of firms in which marketing is strong and influential and firms in which marketing is relatively weak and ineffective are shown in Table 1.

Four of our respondents, each of whom has long-standing professional commitments to marketing as a discipline, made comments that effectively capture the range of opinion on the future of marketing. One respondent on the pessimistic end of the continuum concluded that, in his product-focused company in the electronics industry, there was lots of room for improvement but he saw no sign of a greater commitment to marketing. In another firm, in

Table 1
Characteristics of Firms in Which Marketing Is...

More Successful	Less Successful
CEO has deep understanding of marketing and compelling vision of customer value, and advocates for customer	CEO has little or no marketing experience and focuses on financial community
Management focused on long-term growth in revenue, profitability, EPS, and cash flow	Management focused on current stock price, EPS, cost reduction, market share, sales volume
Market information and tracking data are key management tool, focused on customers, resellers, and key accounts	Cost reduction and labor productivity are top priorities
Growth achieved through serious commitment to R&D, product innovation	Growth achieved through merger and acquisition
Substantial investment to build and maintain brand equity	Strong brands used as cash cows to fund acquisitions, growth strategy
Customer analysis is hard-wired into product development	NPD is product-focused and technology-focused
Customer portfolio analyzed and managed for loyalty, profitability	Product portfolio managed for cash flow; pricing used to achieve volume goals

the food industry, one respondent believed that although "marketing needs to make a comeback," he remained concerned about whether the situation would turn around because it is getting harder to achieve real innovation in an environment dominated by a short-term focus and improving the bottom line through cost-cutting.

On the other hand, a hopeful observer, in a technology-oriented firm, noted, "We are in the middle of a discontinuity in marketing. Trends are not yet clear. But there *will* be a new equilibrium."

Finally, one industrial marketer saw the future of marketing as very much dependent on its ability to deliver observable, measurable results: "*If* marketing can deliver on new business growth, we have a huge future. *If not*, we go back to 'make and sell.' They [corporate] will strip it down and go back to the emphasis on cost reduction."

Overall, our study finds that marketing remains an evolving field of management practice and academic discipline. It will continue to evolve not only in response to environmental forces, as it has in the past, but as a direct result of the ideas, activities, decisions, and resource commitments of those who have responsibility for it. These processes result in a wide disparity between firms in the role and influence of marketing on corporate decision making.

Defining the role of marketing, beginning with the definition of the term itself, is clearly still a work-in-progress in most companies. There is almost certainly no right answer, no one right way to define the role of marketing in the firm. At least, no one claims to have found it yet.

Change in the role of marketing has been driven by dissatisfaction with the status quo rather than motivated by a clear vision of the optimal organization. Marketing organization may very well be facing a future of continuous experimentation and change, cycling in perpetuity between centralization and decentralization, long-term and short-term emphasis, building strong brands and exploiting the immediate opportunities presented by lower costs and prices. Yet the success of marketing in some firms suggests that marketing can regain its seat at the table if its role is clearly defined and it can empirically demonstrate its contribution to business performance. Only then will marketing be able to play the influential role in corporate strategy and operations that is commonly assumed by marketing academics and many marketing managers. ■

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