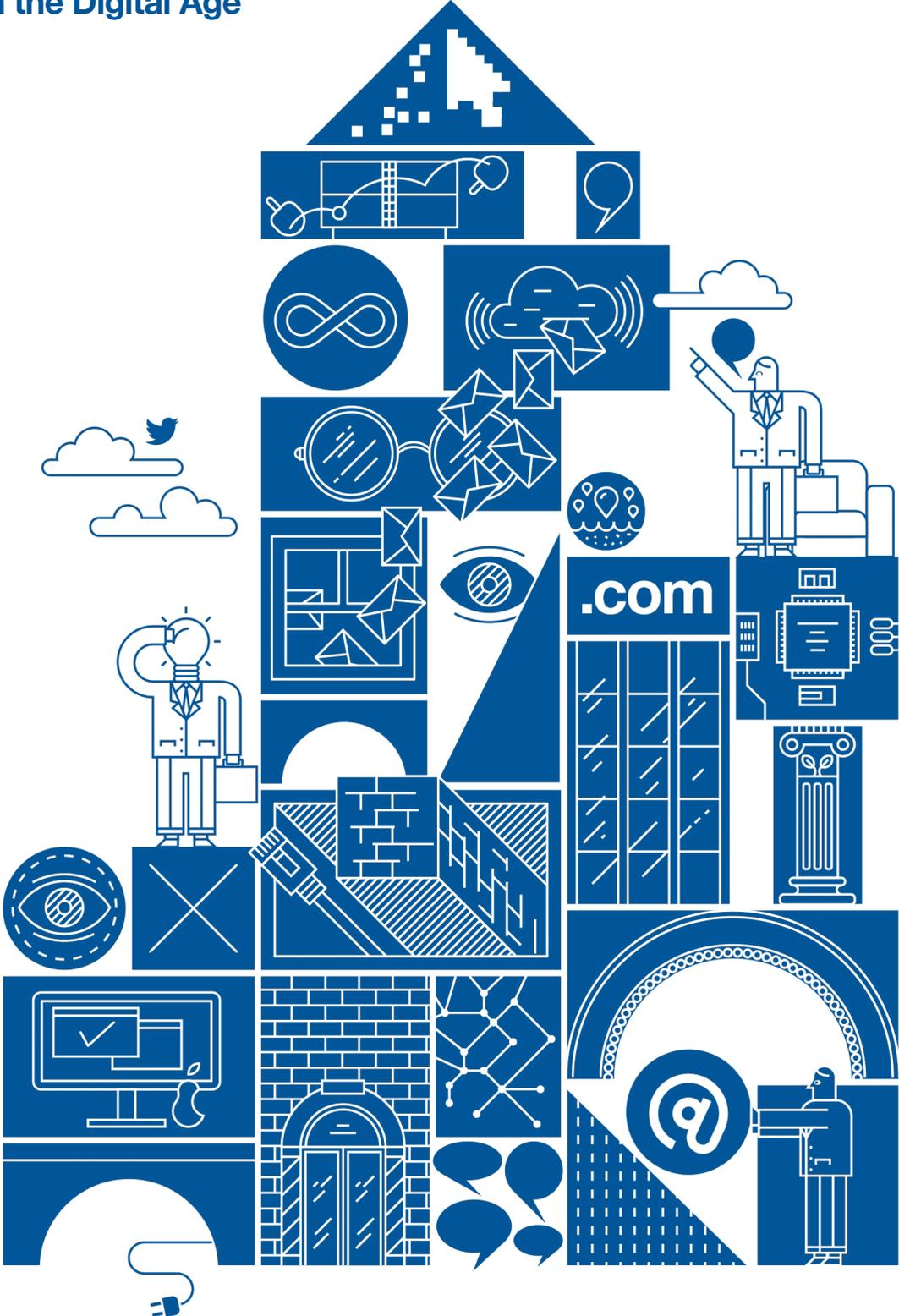


Reinventing the Company

in the Digital Age



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Reinventing Marketing in the Digital Era

George S. Day

Professor Day examines how the activities, responsibilities and design of the marketing organization are evolving to manage the uncertainties of the digital age. He states that this transformation will involve the interplay of three driving forces: the impact of digital technologies, the changing role of the Chief Marketing Officer (CMO), and emerging organizational designs.

The increasingly central role of customer analytics and Big Data, predictive analytics and customer experience mapping are allowing organizations to deploy their marketing resources more efficiently and effectively; in this regard Day sees the role of the CMO changing so as to accept the dual responsibilities of creative and accountable delivery. In this way the CMO needs to create a marketing culture that fully embraces desired values and behavior, and one which fully takes on board these new core metrics and measurements.

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He has won ten best article awards and one best book award, and two of his articles were judged to be among the top 25 most influential articles in marketing science in the past 25 years. He was honored with the Charles Coolidge Parlin Award in 1994, the Paul D. Converse Award in 1996, the Sheth Foundation award in 2003, and the Mahajan Award for career contributions to strategy in 2001. In 2003 he received the AMA/Irwin/McGraw-Hill Distinguished Marketing Educator Award. In 2011 he was chosen as one of eleven “Legends in Marketing.”

Key Features for the Company of the Future:

Make Decisions From the Outside In

The management team will start the strategy dialogue by stepping outside the mental models and resources of the firm as it is, and look first to the market and where it will be in the future. How and why are customers changing? Where are we vulnerable to competitive threats? How can we better solve their problems and meet their emerging needs?

Be Guided by a C-Suite Team of Vigilant Leaders

Each member of the team will have a functional organization behind them that is respected by the rest of the organization. However, functional mastery will matter less than general business acumen, willingness to collaborate with other functions, and strategic thinking.

Have Mastered Digital Technologies

These organizations will use Big Data, customer analytics, experience mapping, and a myriad of emerging methods to deliver integrated experiences that are compelling, personalized, and consistent across all customer touch points. They will have developed adaptive capabilities for closing the gap between the ever expanding amount of data available and the capacity of the organization to make use of this data and convert it to useable information.

Reinventing Marketing in the Digital Era

Marketing is at the interface of the firm and its present and prospective markets, and is the organizational function that absorbs much of the environmental turbulence. How will the activities, responsibilities and design of the marketing organization evolve in the future? The answers will emerge from the interplay of three driving forces with the unique features of each firm's strategy, legacy, and the dynamics of their market. These driving forces are: the impact of digital technologies, the changing role of the Chief Marketing Officer (CMO) as a member of the C-suite, and emerging organizational designs. We will use the Chief Marketing / Commercial / Customer Officer as the lens by which we assess the impact of these driving forces on the practice of marketing. With this lens we will see why so many firms will have to reinvent their marketing organizations.

The Forces Transforming Marketing

When thinking about the future of marketing in an era of accelerating change, five years is a long time. To appreciate what can happen in five years, think back to 2008/2009. Facebook had only expanded beyond universities in 2006,

Twitter was barely on the horizon for most people, clouds were mostly in the sky, and the serious damage resulting from the credit meltdown was just becoming painfully evident. We can be sure that five years from now there will be equally dramatic changes. Yet there are some predictable changes—which we call driving forces—that are already at work and that CMOs and their C-suite partners can prepare for with confidence.

The Changing Digital Frontier

Marketing is already one of the most technology-dependent functions in the firm. In 2012 the research firm Gartner predicted¹ that CMOs would be spending more on digital technologies than the chief information officer by 2017. That forecast is becoming more credible as time passes and may happen sooner in some firms. Approaches for analyzing markets and interacting with customers that were at the cutting edge a few years ago are fast becoming obsolete, and new approaches seem to emerge weekly. The general nature of these new approaches is widely known. What is less appreciated is how they are changing marketing practice.

– New Ways of Understanding and Connecting with Customers

Next practice marketers are using customer analytics (also known as Big Data), predictive analytics, and customer experience mapping to deliver integrated experiences that are compelling, personalized, and consistent across all the points the firm touches their customers. They have many ways of connecting with these customers (video, SMS, social media, websites, mobile devices, as well as familiar direct mail and sponsorships, and traditional media such as television). Many CEOs say that digital marketing investments are the most important commitments their firms can make because they reshape the firm's relationship with their customers and enable competitors to gain an advantage if the firm responds too slowly.

This burst of technology is proving hard to manage effectively. In addition to major platforms for customer relationship management (CRM), content management, and marketing automation, there are many new platforms for social media management, content marketing, and customer-facing applications. Of course their impact will be felt differently in different industries; banking is being transformed by mobility and new payment systems,

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as well as the ability to personalize. Manufacturers of building products who serve only business-to-business markets will pay attention to CRM, salesforce control models, and social media.

– **Advances in Decision Tools**

Fortunately there is progress in methods for absorbing, interpreting, and acting in the face of the avalanche of data being generated by fragmenting markets and the proliferation of digital media and channels for reaching customers. Whereas marketers once had to exert significant effort to gain feedback from their customers, now they struggle to absorb the feedback from user-generated content and social media channels. In many markets

There is a widening gap between the ability of firms to comprehend and use the data and the growing amount of data they are getting

we are close to being able to tailor the message and offer to each customer and prospect. The fuel is the plummeting cost of bandwidth, storage, and computing—and the result is that available data is doubling every eighteen months.

There is a widening gap between the ability of firms to comprehend and use the data and the growing amount of data they are getting.² Fortunately there are advances in digital technology that promise to help narrow this gap, at least for those firms able to master the technology and

build an organization capable of using expert systems and artificial intelligence approaches. Consider the potential of IBM's Watson, a cognitive technology that is a natural extension of what humans can do. Watson can read and understand natural language, which is important in analyzing the unstructured data that makes up as much as 80% of data today.

The Changing Role of the C-Suite

A recent analysis of C-level positions concluded that when people reach the C-suite, the skills and functional mastering that got them there matter less than their leadership skills and general business acumen.³ The chief information officer, chief technology officer or CMO who thrives in the C-suite will be a team member who can lead without rank, with a functional organization behind them that has earned the respect of the rest of the organization. The skills that are increasingly in favor in the C-suite are strong communication, willingness to partner with other functions, and strategic thinking. Successful members of the C-suite will advise the CEO on key decisions and strategic choices, but offer their own well-informed insights.

For CMOs to thrive and survive in a collaborative C-suite, they will have to adopt a general management mindset and earn the respect of their peers with fact-based analyses. They will achieve the status of a trusted advisor to the CEO by:

- Being the acknowledged voice of the customer and consumer, and ensuring the strategy is built and executed from the outside in. Put most simply, this means standing in the customer’s shoes and viewing everything the firm does through the customer’s eyes.⁴
- Being the steward of the brand as a valuable asset, and rallying the entire organization to support and enhance the brand promise.
- Driving profitable organic growth, by continually searching for new ways to innovate new value for customers. They consider the full spectrum of possibilities for growth, instead of limiting themselves to the narrower possibilities of product innovation.
- Taking accountability for the returns on marketing investments.

They will gain further credibility by building a marketing organization that is nimble, agile, and informed by data and deep insights into the current and potential customers—and is demonstrably superior to the rivals. To get there, they will have to master three important trends in organizational design.

Emerging Organizational Designs

For decades three trends have been reshaping the structures of organizations: (1) flattening (or delayering) to eliminate layers in the hierarchy,⁵ (2) teams organized around cross-functional activities and processes, and (3) the replacement of the traditional closed hierarchy with an open network model that shrinks the organization to the core while expanding the periphery.⁶

The latter trend especially caught the attention of a group of CMOs convened by the American Marketing Association in 2007 to develop scenarios for the future of marketing.⁷ At that time the two uncertainties that were the most informative and potentially influential were: the system-wide resources available to marketing, and the dominant organizational models. These two critical uncertainties were each reduced to a single spectrum with the credible extreme states at each pole.

These two axes were crossed to form a 2x2 matrix, with four different quadrants of uncertainty. Each quadrant portrays a plausible, alternative hypothesis or scenario about how the environment might unfold, and highlights the risks and opportunities to the organization—or, in this case, to the function of marketing within the firm.⁸

These scenarios let marketers “learn from the future.” They can rehearse the future to avoid surprises by breaking through the illusion of certainty.

Unlike traditional strategic planning, which presumes there is a likely answer to a strategic issue, scenario learning considers multiple futures. It meets the needs of marketers for plans, capabilities, and organization models that are robust across the scenarios, so the organization is prepared for whatever the future will bring.

The reason for uncertainty about the future structure of the organization at the time of the study was that the traditional organization model had shown an amazing level of adaptability. On the other hand, there was considerable evidence that companies with a network structure were more nimble and winning the market battle. Companies such as Cisco Systems Inc. or Li & Fung Ltd were organizing as a network structure to leverage and gain more resources. The best place to see open networks in action was the area of open innovation or innovation networks, but it was easy to contemplate how networks could be more widely applied to extend the reach of the firm.

Fast forward seven years to 2014, and the hierarchy is still in place in most organizations. Their advantages have generally prevailed. First, they keep critical functions in house, out of competitors' view. If you can do your analytics within your own walls, you don't have to reveal your talents, capabilities, algorithms, and resource-allocation decisions to others. Second, it can be difficult to find good external partners. True, there are many companies offering services such as data analytics, help with creating viral campaigns, social-media mining, and search-engine optimization. But the number of really good firms in these fields is limited, and many of them have already been snapped up by the biggest companies. Finally, there's the perennial difficulty of managing partnerships. The rate of disappointment in alliances and joint ventures is around 50%, partly because partners' objectives inevitably diverge as circumstances change.

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The longevity of hierarchies, however, is due to more than these factors. In today's forward-thinking companies, hierarchies are proving to be highly versatile. Rather than being destroyed by digital technology, they're being strengthened by it. Technologies have allowed the marketing organization to become more efficient and effective. For example, the boundaries with other functional disciplines are blurring. Instead of siloed specialists there are cross-functional teams that are coordinated with shared information.

Within marketing the silos are collapsing. These more integrated organizations look more like a hub with spokes than the familiar horizontal-boxes-and-arrows

model. The CMO may now be called the chief engagement officer or chief customer officer to signal a shift in priorities. Roles akin to product manager, customer insights manager, PR manager, and advertising director are the spokes and rim of the wheel around the CMO, who is the hub and coordinator.

Those who speculated about the end of the hierarchy were premature. They didn't take into account the hierarchy's ability to adapt with the aid of information technology. It is a flatter, more relaxed hierarchy—but still a hierarchy.

The Reinvention Journey: Imperatives for the CMO

The average tenure of a CMO is between three and four years and is unlikely to be much longer in the future. Yet some CMOs will rise to the intensifying challenge created by the driving forces we just described, and earn “a seat at the table” of the C-suite. They will excel at the five priority actions needed to navigate the escalating complexity and uncertainty in their markets:

- Act as the visionary for the future of the company
- Build adaptive capabilities
- Integrate digital technologies
- Tighten the alignment with the sales function, and
- Take accountability for the return on marketing spending

How will they deploy these five priority actions to ensure their organization stays ahead of the driving forces that will shape the future? First and foremost, they will advocate outside-in thinking that starts with the market when designing strategies, rather than the other way around. Winning strategies will be viewed through a customer value lens and illuminated by deep market insights. Second, they will embrace the dual challenge of building a world-class marketing function that can anticipate and act on the driving forces of change.

The ability of marketing leaders to respond to these challenges will depend on their role within the organization. Whereas the job of the chief financial officer is well understood and accepted, the job of the marketing leader is more ambiguous and varied depending on the industry, the role of the sales function, and the importance of advances in information technology. The possible roles for the head of the marketing functions can be grouped into four categories:

– **Marketing as Top-Line Leader**

In this role, marketing has a central strategic guidance function that directs all customer-facing activities and is accountable for the brand strategy, driving the organic growth agenda, and positioning the business for the future. It has ownership of the customer value proposition. In many organizations,

the CMO will have shared P&L responsibility and will be accountable for the return on marketing investments. He may have direct oversight of sales. This emerging model of a CMO flourishes in companies with big global brands, such as Diageo or American Express.

– **Marketer as Market Advocate**

Like top-line leaders, these CMOs are advocates for the customer and are responsible for bringing longer-term market and brand-building considerations into C-suite deliberations. They lead teams that monitor the market setting, scan for shifts in the media and consumer environment, and then interpret these consumer insights to guide new product development. They differ from top-line leaders in that they have only a limited role in the broader strategic dialogue. They seldom have direct oversight of sales, strategy development or product development. While their role may be broad, they are primarily coordinators and communicators. Market advocates are especially prevalent in sales-driven organizations.

– **Marketer as a Service Resource**

This is the least influential type of CMO. Indeed, the leaders of these marketing organizations are rarely given the label of CMO, but usually have a title such as vice president of marketing services. They manage a group of marketing professionals that operates as a cost center, overseeing central marketing research and coordinating relationships with key marketing partners, such as advertising agencies, market research firms, direct-mail houses, and new media outlets.

– **Marketing as Sales Support**

In this model, marketing plays a subordinate and supportive role to sales, and many marketing activities have been folded into the sales group. The model is particularly prevalent in smaller B2B firms that are reliant on intermediaries. In these situations, sales usually wins the battle over budget allocations. Sales gains a further edge when the CEO is on a short-run earnings quest or when the economy turns bad. In the absence of agreed-upon metrics and credible data, the contribution of the sales group is easier to judge than the long-run investments in brand building, advertising, or new segment prospecting proposed by the marketing team.

Priorities for the CMO

When the CMOs agreed on the four plausible scenarios for the future of marketing, they were then asked for recommendations for actions that would be robust across the scenarios. That is, regardless of which scenario or combination of scenarios unfolded, these actions were deemed essential. That was

first done in 2007, and brought up-to-date through further conversations with CMOs. They have stood the test of time and have only been slightly modified to reflect progress in the practice of marketing.

– **Acting as the Visionary for the Future of the Organization**

Adaptive organizations continuously scan for opportunities in markets, competitive white spaces, and changing customer needs. They win by seeing opportunities sooner than their rivals. This will take an experimental mindset, a willingness to learn quickly from mistakes, and the ability to identify, test and deploy new models.

Increasingly, the CMO will be the person leading a function that is adept at monitoring markets and extracting insights for future growth. When Kim Feil, Walgreens’ CMO, learned from her research group that some consumers viewed the retailer as a convenience store with a pharmacy on the back wall, she saw both a problem and an opportunity. At her urging, the company began to reposition itself as a premium healthcare brand, by showcasing its wellness offerings and walk-in clinic.

– **Building Adaptive Marketing Capabilities**

The CMO of the future must wear many hats and embrace sometimes competing, even contradictory, forces both within and outside the organization. Among the most challenging is the need to deliver business results today, while “creating” the business of tomorrow. Both are essential to a healthy business (and a successful CMO), but require very different marketing processes, skills, and capabilities.

Delivering today requires more proven, predictable and repeatable tools, skills, and processes. It is a bit more left- than right-brained. The marketing capabilities required are developing and executing repeatable models, simplification, executional discipline, rigorous measurement, and decisive action. Convergence, focus and delivery with a more short-term mindset is required. The CMO who does not master these capabilities and build them in the organization will not likely get the chance to spend much time on the longer-term challenges and opportunities.

“Creating” the business of tomorrow is an equally critical and longer-term challenge. The CMOs who do not master these capabilities will also find themselves at risk. The capabilities needed to identify and get the organization ready for the future state—both in finding new opportunities and addressing the challenge of changing consumer and competitive environments—tend to be quite different than the “today” capabilities. These include creative disruption (indeed of the very models that deliver today), divergence and adaptive market experimentation (vs. codification and convergence), vigilant market learning guided by curiosity (vs. conformance) and all the “open-ended” creative skills in innovation.

– Integrate Digital Technologies

In a digital world, software is the chief vehicle for engaging prospects and current customers, and recapturing defectors. The choice of software and its configuration and deployment can dramatically affect how the firm is seen by customers. This means mastering a new set of capabilities, supporting them with investment spending, and interfacing with service providers, agencies, and research firms, who have to be managed as partners.

In this changing digital space, the CMO and CIO must collaborate closely. One way to manage this interface in a holistic fashion, to ensure that what's possible with technology inspires what's needed by marketing (and vice versa) is to engage a new type of hybrid executive:⁹ the chief marketing technologist or CMT. Their job is to serve as the connective tissue between marketing, IT, and external partners.

The CMT can't do this digital integration on his/her own. Most companies are facing a crisis in finding the talented people who understand the fast-changing digital landscape. Everyone wants the same scarce set of skills to undertake data analytics, utilize knowledge-sharing technologies, and deploy social media methods. Marketers will have to work with human resource professionals to identify the skill sets needed in the future, and develop a continuous talent-spotting and recruitment process.

There is a generational transformation under way today in marketing that is both a challenge and an opportunity. For most of history, the future generation learned at the "knees of the elders," as experience and wisdom were the primary sources of knowledge, expertise, and ultimate success. With the digital-technology-led transformation in communication, it is the "future generation" who have the greater knowledge, understanding and comfort with the new digital and social-marketing applications.

The adaptive organization will recognize the value in getting the best from the digital marketers, and will neither be stuck in the past, nor discard all the institutional knowledge and experience in jumping to a completely new model of marketing. Despite what many pundits say, the

fundamentals of marketing strategy and consumer behavior have not been repealed. The adaptive organization will study the changes, understand how the consumer "consumes influence" with the new marketing technologies, will challenge old models and tactics and experiment with new ones. They will figure out what works in the new digital environment for their business and customer and evolve their models and practices. They will neither totally abandon the past, nor completely adopt the latest digital fad.

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– **Tightening the Alignment with Sales**

Too often, there is an adversarial Mars vs. Venus coloration to the relationship of sales and marketing. It has historically been rooted in mutual incomprehension of the other's role, different time horizons and divergent goals and incentives. Typically the two functions occupied separate silos, and one function had more power than the other, depending on the industry.

Sales and marketing occupied separate silos, but now the traditional lines between the two functions are blurring

The traditional lines between marketing and sales are blurring. Key account managers serving large, powerful customers are engaged in long-run marketing strategy and brand development activities. Meanwhile, the number of possible points of contact with customers and consumers has been increasing exponentially, with social media, interactivity, and mobility demanding closer coordination. Increasingly, CEOs are looking for a single point of contact with all market-facing activities, who can take responsibility for the value proposition, innovation, marketing, and sales across all platforms. Many companies have responded with a new combined role of chief commercial officer. This combined function ensures closer internal and external alignment, by using the internet to coordinate all marketing and sales activities—from customer-service reps responding to complaints on blogs to systems for tracking sales calls and consumer web behavior.

– **Taking Accountability for the Returns on Marketing Spending**

There is no foreseeable future where marketing won't have to demonstrate that it can earn acceptable returns on marketing investments. While there is admittedly a fair amount of craft (even art) in effective marketing, the discipline at its core exists to create value for the enterprise. The CMO who doesn't understand this, embrace it, and build a marketing culture and capability around value creation through the returns on its marketing investment, will not survive. Key to this is recognizing that this is not a contradiction with the creative side of marketing. As Bill Bernbach, one of the creative giants of the twentieth century put it: "Properly practiced creativity **MUST** result in greater sales more economically achieved."

Summary and Conclusions

For the organization to succeed and win in the digital era by deploying the marketing resources both efficiently and effectively, the CMO must embrace the dual responsibilities of creative and accountable delivery.

The CMO will succeed by first adopting the mindset of the CEO, not the creative CMO. The marketing function exists to deliver increased enterprise value in the short-, medium- and long-term. And it does so by owning both the numerator and denominator of the “value equation”—optimizing the ability of marketing to generate top-line growth (the numerator) and reducing the cost of delivering that growth (the denominator). The CMO needs to adopt this mindset and create a marketing culture that fully embraces it. He or she needs to serve as the role model for the desired values and behavior, and embrace the core metrics and measurements—not avoid them.

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