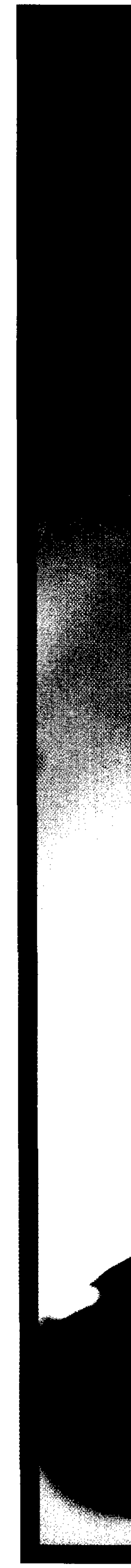
Marketing Management in Changing Times

We must keep adapting to survive in a new era.

By Frederick E. Webster



It's sobering to realize that marketing management as a distinct activity within business, and within the marketing discipline, is only about 50 years old. Prior to this, marketing had been defined essentially as a socioeconomic process, focused on transactions and exchange, taking place within markets, not within the firm. Marketing was identified as a distinct business function in the 1920s, but the official American Marketing Association definition of marketing as a set of business activities didn't come until 1948. Market research, the study of consumers and their response to marketing effort, grew significantly in the '50s.

The '60s saw the development and exploitation of the first large-scale databases, including consumer panels, store audits, and warehouse withdrawals. Marketing academics were enlisted to develop the analytical tools and models necessary to find the relationships between marketing efforts and sales results. Within firms, quantitative marketing analytical activities were the responsibility of operations research because marketing mangers didn't have the required skills.

Looking back, it's clear that the focus of these early market research and modeling efforts was on stimulating demand and trying to increase sales volume. The research wasn't aimed at trying to understand customers and their needs. Marketing has always been confused with sales, and this is why marketing management has a hard time defining its role within the firm. In practice, marketing is more about tactics than strategy.

EXECUTIVE briefing

Marketing has moved from an emphasis on selling to customer orientation to competitive positioning and still tries to cover tactics, culture, and strategy simultaneously. Should these three distinct points of view be blended into a single concept of marketing? Inherent conflicts regarding time horizon and organizational responsibilities have made this difficult. Thinking of marketing as organizational processes may not result in any clearer view of marketing as a distinct management function.

Marketing Needs a Home

Marketing management still hasn't found a home in the management pantheon. In most organizations, marketing has had periods of growth and retrenchment as its relationships with other management functions keep changing. Let's consider a few of the reasons for this.

First, the relationship between marketing and selling has never been resolved. Originally, marketing appeared as a form of assistance to the sales force, which included materials such as advertising, brochures, and other sales aids to support the field sales organization. This function soon came to include market information used to develop sales quotas, measures of market potential, and sales forecasts to direct and control sales effort.

Many managers still confuse marketing with selling and sales management. The fundamental conflict between short-term, tactical thinking and measurements and long-term, strategic goals and results makes this a huge problem. Ask a manager to do both, and the short term wins every time! When marketing and sales are in conflict, short-term sales goals often win, while marketing's position in the organization is diminished.

Second, marketing has spawned several management specialties, most notably quality, communications, and strategic management. Within academia, consumer behavior has become a separate discipline, distinct from marketing and even disdainful of it. This is significant because marketing's raison d'être within the organization should be to provide customer knowledge throughout the organization. Yet market research is often the study of transactions, not customers, of statistics, not behavior. In the age of large-scale databases, managers are overwhelmed with data, but are still short on information about customers.

Quality management was an attempt to deliver reliably consistent products and services to meet customer expectations. Total quality management is the most fundamental expression of what it really means to be customer-driven and to create a satisfied customer. You may not know it, but the best-known quality guru, W. Edwards Deming, published some of his first work in the *Journal of Marketing*. Marketing scholars and marketing managers largely ignored the area, and it found a home in the field of production and services management, which it has redefined significantly.

Likewise, communications developed a related field of publicity and public relations. Over time, however, corporate communications has evolved into a separate function, often reporting directly to the chief executive, creating a host of unresolved marketing issues about the relationship between the corporate name as a brand and the family of individual product brands. Large global companies like Ford still struggle with this issue today.

Strategic planning developed in the late '60s as a specific response to the unfinished business of the marketing concept. Peter Drucker's articulation of marketing as a management philosophy in the '50s caught the imagination of top thinkers at companies such as General Electric, Pillsbury, IBM, and RCA. In a 1960 article in the *Journal of Marketing*, Robert Keith, CEO of Pillsbury, predicted that the "marketing revolution" would make marketing the dominant function within the firm, guiding all of its activities and all other management functions. Obviously, his prediction was premature.

It soon became clear that the marketing concept had limited practical implications in its pure form as a mandate for customer orientation. It did not specify *how* the firm should satisfy customers or how to choose those customers. It's important to note that Drucker himself stated (in 1954) that marketing is not a separate management function at all, but rather "the whole business seen from the customer's point of view." It's a declaration of corporate culture, a statement of values and beliefs. It says nothing about what to do or how to do it.

Tactics, Culture, and Strategy

Note what has happened. Marketing was first equated with selling, or "demand stimulation" in the economist's terms, and was seen as *tactics*. Then, the marketing concept came along and said that marketing is organization culture, a set of values and beliefs to guide the entire organization. It didn't say how to turn customer-oriented beliefs into action. It left many questions unanswered such as "Who is the customer?" and "How should the firm achieve competitive advantage?" Next comes strategic planning, an outgrowth and expansion of long-term planning, to turn marketing into strategy. The cultural, tactical, and strategic perspectives are not necessarily competing viewpoints, but they are certainly different. The fundamental motivation of the earliest strategic planning was to make traditional long-term planning more customer-oriented and in the process make the marketing concept operational.

Strategic planning emerged at companies like GE as an attempt to translate the marketing concept into action. By analyzing the company's internal strengths and weaknesses along with opportunities and threats in the market, management could pinpoint markets where customers would most highly value its offerings. This way the firm could achieve competitive advantage and use its limited resources to plan new product development and production more efficiently.

The key ideas embedded here are the concepts of market segmentation, targeting, and positioning. Although the general idea of market segmentation had been around for many years, it was identified as a key idea of marketing strategy at about the same time as the marketing concept. For a period in the '70s, strategic planning was an integral part of marketing management and was redefining the field with the notion of market segmentation and product positioning as a key step in defining the company's served markets and competitive position within them.

Soon, however, strategic planning evolved into the broader field of strategic management concerned with both planning and implementation. A major reason for this separation of marketing and strategic planning was marketing departments' inability to think strategically while also trying to manage the selling functions. Once again we see the consequences of trying to combine sales and marketing. Separate strategic planning departments grew rapidly at places like GE and IBM, while the relationship of sales to marketing went in and out like the tide.

Competition Gets the Spotlight

Instead of focusing on customers, strategic planning emphasized competitive analysis and the positions of the firm's strategic business units in the product portfolio vis a vis competitors' product offerings. Short-term financial criteria totally dominated the allocation of resources across business units rather than any sense of serving customer needs and building long-term customer relationships.

Masquerading as "marketing science," the famous Profit Impact of Market Strategy (PIMS) studies (which originated within GE and eventually became independent) examined the relationship between return on investment and three dozen marketing variables. These included advertising and promotion spending levels and product quality, all defined "relative to competition, not as evaluated by customers." This effort offered the wholly credible but totally misleading conclusion that market share was the single most important determinant of the financial performance of a business.

This led to nonsensical activities such as the definition of "our served market" to ensure that the business was first or second in its competitive arena. Significantly, in February 2001, Jack Welch wrote in his last letter to the shareholders as GE chairman that the firm had abandoned his famous dictum that GE had to be first or second in any business because "it leads management teams to define their markets narrowly to 'nonsensical levels,' and has caused GE to miss opportunities and growth."

An overemphasis on market share also caused companies to lower price to build dominant market share, sometimes at wildly unprofitable levels. Firms also maximized the drain of cash flow out of leadership market positions to attempt to repair positions in fast-growing markets where the firm had troubled product offerings. The damage done to long-term business profitability by this pseudo science will never be fully known, but it was undoubtedly immense.

PIMS and the fascination with market share dominated thinking about marketing strategy for more than a decade, into the '80s. Marketing academics glommed onto PIMS data, with only limited concern for the validity of these measures. Researchers might have worried more about the validity of data based strictly on the judgments of manager respondents, but their defense was simply that these were the best data available to study the impact of marketing activity on business profitability. Here at least was the dawning of a long-overdue consideration of the link between marketing actions and financial performance. The lack of clear connections between marketing actions and profitability has limited marketing's credibility as a management function.

By the end of the '80s, strategic planning departments were in decline and the field had evolved into a broader discipline called strategic management. Strategic planning has produced some notable and well-documented disasters as well as the familiar "paralysis by analysis," huge strategic planning departments that prevented firms from responding to changes in the global marketplace, coupled with a love affair with mergers that distracted management from developments in their core businesses.

As an academic discipline, strategic management has incorporated and co-opted many of the most significant concerns of marketing, most notably customer-orientation and market segmentation, targeting, and positioning. Concepts of customer value are now dominant in strategic management thinking. Customer orientation has been added to competitor focus in strategy formulation.

The Year Ahead

So here we are at the beginning of a new century. Is it also the dawn of a new understanding of marketing management? What must be done to make it a truly distinctive and vital management function? Will academics provide any help in this quest or go off in directions with little relevance for marketing management and strategy? We can be confident that the forces identified in the '90s will continue into the current decade, and we can add a few new ones:

Corporate dis-integration and networking

De-functionalization of marketing

The digital economy

Malignant price erosion (i.e., sales promotion addiction)

Shift from resource-based to information-based economy

Firms without borders

As strategic planning waned, many firms rediscovered their customers. Realizing the high cost of losing a customer focus, senior management called for a new emphasis on customer satisfaction. The new focus on customer value as the driver of profitability and, ultimately, shareholder value increased the size of the marketing image on top management's radar screen, at least briefly. Less clear is whether marketing managers understood what this new interest required.

The Customer-Price Connection

Once again, marketing had trouble maintaining its strategic, long-term focus on building the business and the brand. While strategic management adopted a customer-oriented, market-driven focus, marketing reverted to a selling, sales volume, and product orientation. Under the mounting pressures of global competition, the growth of megaretailers and "big box" outlets, and the price transparency of e-commerce, the battle for sales volume and market share once again dominated. Marketing reverted to sales. Customer value was defined as lower price, and sales promotions of all kinds became the weapons of choice.

The following forces helped shape marketing in the past decade:

- Globalization
- Information technology, particularly e-commerce
- Dis-integration of large corporations and the movement to outsourcing, partnering, and strategic alliances
- De-functionalization of marketing and the diffusion of marketing responsibilities throughout the organization
- The continued growth of "big box" megaretailers and the loss of channel control by the large national brand manufacturers

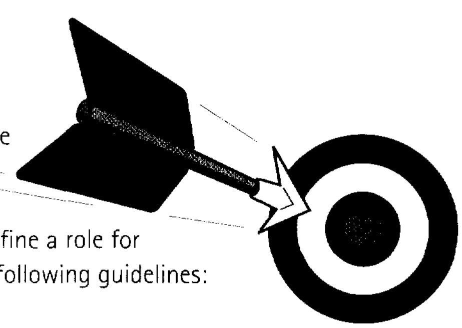
The '90s brought a turbulent market environment characterized by sustained economic growth, continued globalization, industry consolidation, intense competition among fewer and larger firms, and cancerous emphasis on quarterly earnings per share for virtually all publicly owned and well-established business entities. Managers were called on to re-engineer, downsize, de-layer, get online, consolidate, simplify, lower costs, and depend on fewer suppliers while simultaneously building brands, dominant market positions, stronger supplier and customer relationships, and innovative new product offerings. Budgets in the '90s continued to shift from consumer to trade expenditures and from brand-building media dollars to short-term sales promotion incentives.

Dealing With Data

Brand managers and data providers have been overwhelmed by massive stores of transactional data with only limited ability to analyze them and create new information and insights. So data owners recruited academics to do the analyzing. Academics, of course, love it! The opportunity to trace more precisely how a given price promotion or frequency program translates into sales results, compared with the messy consequences of media advertising, is irresistible.

However, the apparent analytical sophistication of database management has led to an increased emphasis on short-term tactical marketing expenditures. The apparent ability to trace the effects of short-term promotions, when compared with the nasty problem of tracing the long-term effects of brand-building advertising, is alluring to managers under pressure to show the results

What Management Can Do



One of the most sensible schemes for thinking about organizational value creation defines three processes for which marketing should provide the leadership. According to Srivastava and colleagues, these include innovation management, customer relationship management, and value- or supply-chain management. To implement this new point of view and to define a role for marketing management within the organization consistent with today's challenges, I offer the following guidelines:

Forget the four Ps

Quit treating sales as part of marketing

Think of marketing as a management competence based on customer information and its integration into business processes, a top management responsibility

Strengthen market research as the study of customers, not transactions

Develop organizational relationships (team structures) to link marketing to cross-functional business processes, not just to other management functions

Link marketing actions and market responses to cash flow consequences, not just sales results of marketing expenditures. Marketing management in many consumer goods firms and service providers has been diminished into the department of sales promotions and frequent buyer programs. To me, this is just the latest example of the unresolved conflict between marketing and sales and the tendency for the short term to drive out attention to the long term.

On the B2B side, customer value is defined around price. Larger customers depend on fewer suppliers to provide superior quality with tighter service requirements at ever-lower prices. The evolution of B2B online auctions and the commoditization of technology-based product offerings make it hard for industrial marketing managers to maintain a focus on long-term strategic, segmentation, and positioning issues. Marketing management in B2B markets has been heavily focused on relationship management, which is demanded by the firm's largest, global, and often least profitable customers.

Despite its emphasis on price promotions, the '90s also saw renewed interest in the concept of brand equity as a strategic asset. Clearly, the strategic value of the brand was seen as an antidote to relentless price competition and low to nonexistent profit margins. Firm valuations in the over-heated financial markets of the '90s were often built around arguments about the value of brands. More emphasis was placed on their value on the auction block, less on the need to invest in them to maintain and build value for the future. Some of the silliest "marketing," as the term is misused, was the money spent on Super Bowl television ads by e-commerce startups hoping to achieve instant brand equity even before there was a product.

A New Paradigm

An inherent tension exists between the old and new views of marketing management. The new view of marketing focuses on customers (not products), responsiveness and organizational capabilities (not control), marketing as process (not function), customer value (not the four Ps), relationships (not transactions), networked organizations (not bureaucracies), and multiple buying motives (not simply price). To quote a recent article on the relationship between marketing processes and the financial performance of the firm, "The old view of marketing has within itself the seeds of marketplace failure." (See Additional Reading.) It's patently clear that marketing management needs a new paradigm.

A new view of marketing management in the firm must start with the focus on customer value, conceiving marketing management as "the process of defining, developing, and delivering customer value." It must also recognize that marketing management is simultaneously strategy, culture, and tactics. And it must think of marketing management as organizational processes and capabilities for linking customers with the organization. Marketing must be an expert on the customer, providing and interpreting information about customers into all of the processes involved in defining, developing, and delivering value to those customers.

Much of the current work on "marketing as process" brings together concepts of strategy and organization. At this point, however, the impact on the practice of marketing management remains unclear. A fundamental problem is finding a distinction between marketing and all the other functions of the business that are also involved in developing and delivering value to customers. Does marketing really have a unique intellectual domain? We're obviously back to the basic issue of defining marketing and of marketing as simultaneously tactics, culture, and strategy. If marketing management truly is "the whole business as seen from the customer's point of view," then how can there ever be a distinct marketing management function?

Maybe the answer resides in giving up the fiction of a unified field of marketing. Maybe it is three distinct fields:

- Customer orientation supported by market research, a top-management, market-back responsibility

- Strategic management, built around market segmentation, targeting, and positioning, supported by competitive analysis and managed by a team of analytical specialists

- Demand stimulation, including selling, sales promotion, and media advertising, the responsibility of a sales department

Clearly, these are three different subsystems within the firm. The question is whether they can ever be integrated into a single comprehensive view of marketing management. As we have seen, these competing views of marketing tend to interfere with one another when they're combined as a single entity within the firm. Selling and promotion should probably be a distinct function. A culture of customer-value orientation, implemented through market-driven strategic management, should be dominant, led by top management as its principal responsibility.

Tactics and strategy just don't get along with one another, and customer orientation isn't something that can be delegated to a separate marketing department. Marketing skills and sensibilities must pervade the organization. Marketing management as a distinct function may become obsolete. ■

Editor's note: This article is adapted from the author's speech to the board of trustees on the 40th anniversary of the Marketing Science Institute in April 2001.

Additional Reading

Srivastava, R. K., T. A. Shervani, and Liam Fahey (1999), "Marketing, Business Processes, and Shareholder Value: An Organizationally Embedded View of Marketing Activities and the Discipline of Marketing," *Journal of Marketing*, (63), 168-179.

About the Author

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