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Marketing's Influence within Companies: Current Issues and their Possible Resolution[1]

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Abstract

Marketing is a fundamental business function which is directly connected to the company's long-term performance. However, the marketing function seems to be marginalized in many companies. The main reasons for the relatively low power of the marketing function within the private sector are insufficient control of CMOs over marketing strategy and the marketing mix, lack of convenient measures for capturing the effectiveness and efficiency of marketing investments, the tactical and short-termed orientation of marketing departments, and last but not least the low reputation of the marketing profession. This study analyzes these four factors and proposes steps which can be undertaken by CEOs, marketers themselves and business faculties to leverage the influence of the marketing function and therefore also the overall performance of a company.

Key words

Marketing function, marketing department, marketing performance, marketing reputation, CMO

JEL Classification: M31

Introduction

Marketing is a fundamental business function. Companies of all sizes and sectors have to answer basic strategic marketing questions, such as "who is their ideal customer", "what is the value they propose", "how do they ensure customers' satisfaction" or "how do they retain a competitive position". These marketing decisions are integral for every business model in a competitive market. They represent a necessary condition for the company's long-term performance.

Companies that are customer-oriented (i.e. those with a strong marketing function) possess a sustainable competitive advantage. Research proves that customer orientation correlates with performance. For example, Slater and Narver (2000) found a positive relationship between market orientation and business profitability. It was also proven that marketing's influence on top management was associated with a firm's growth, etc. (Stringfellow & Jap, 2006).

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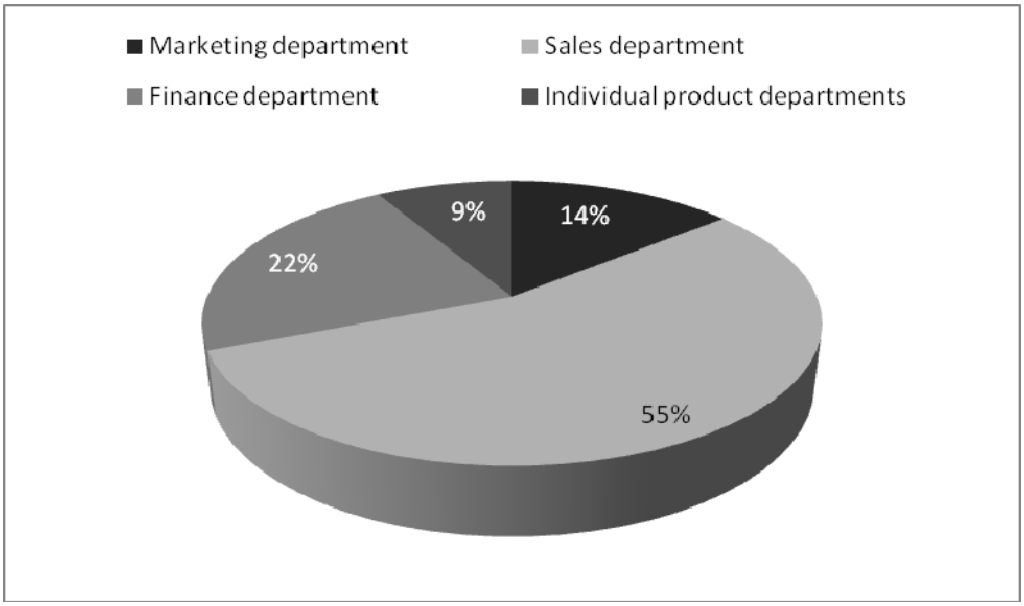
However, it seems that the marketing function has been losing its power within companies recently. Many companies even do not have a marketing representative on their board. According to a Booz Allen & Hamilton study, less than half of the Fortune 1000 companies have a Chief Marketing Officer position (Kerin, 2005). In the United States, only one of the top twenty Fortune 500 companies has a CMO position and in Great Britain only five of the 100 companies listed on the London Stock Exchange have a board-level marketing position (Stringfellow & Jap, 2006). Furthermore, only 10 percent of executive meeting time is devoted to marketing at large companies (Varadarajan, 2006). This means that the main attention of companies has shifted to other business functions.

Marketing is usually not the most powerful department in companies. A 2011 study with 227 CMOs of large Czech-based companies showed that only 14% of these managers perceived their department as the most influential player in the company (Hořejš & Karlíček, 2011). More typically, it was the sales or finance departments that were perceived as having the most power in constituting the overall corporate strategy (see Figure 1).

Figure 1 The most powerful department in a company – perceptions of Czech marketing managers



Source: Hořejš & Karlíček, 2011.

The marginalization of the marketing function in many companies is far from ideal. It is connected with both the low effectiveness and efficiency of the marketing function which logically leads to declining customer loyalty and flat customer satisfaction levels (Sheth & Sisodia, 1998). As a consequence, the ability of marketing to create assets (e.g. brand equity) is limited (Sheth & Sisodia, 2006).

The goal of this paper is to analyze the main reasons behind the above mentioned negative trend and to propose steps which can be undertaken to leverage the influence of the marketing function within companies and thus also leverage the companies' overall performance.

In literature, four crucial reasons for the inappropriate role of the marketing function can be identified. These are insufficient control of CMOs over marketing strategy and the marketing mix, lack of convenient measures for capturing the effectiveness and efficiency of marketing investments, the tactical and short-termed orientation of marketing departments, and last but not least, the low reputation of the marketing profession. These factors will be analyzed in the following text.

1 Insufficient Control of CMOs over the Marketing Strategy and Mix

Surprisingly, quite often, CMOs do not have control over the marketing strategy and marketing mix. Their insufficient competence is probably the most critical reason behind the low performance of the marketing function. Therefore it is not surprising that the position of CMO tends to be rather problematic. According to Kerin (2005), less than half of the world's top brands' CMOs stay with their companies more than one year and only 14% of them stay with their companies over three years.

According to a recent extensive study of IBM which was based on face-to-face interviews with over 1700 CMOs from 19 industries and 64 countries, CMOs typically exert a strong influence over promotional activities such as advertising, external communication and social media initiatives (IBM, 2011). However, they in general play a much smaller role in influencing the other three Ps of the marketing mix. Less than half of the respondents declared that they had control over the pricing process, over the product development cycles and over channel selection.

This means that many crucial marketing activities are being taken away from the marketing department by other functional areas in the company (Ambler, 2006), i.e. those that often lack appropriate marketing literacy (Sheth & Sisodia, 2005). It is also fairly common that some strategic marketing activities are simply not implemented at all.

Furthermore, the above mentioned situation leads to fragmentation of the marketing function which results in lack of coordination over the customer experience and suboptimal brand performance (e.g. Keller & Kotler, 2006). Without control of the so-called customer touch-point, marketers cannot manage brand equity, which should be one of their most important functions.

According to Ambler (2006), the confusion between the marketing function (i.e. what the whole company does to delight current customers and acquire new ones) and what the company's marketers do is at the heart of the problems with measuring the performance of marketing (which will be discussed later).

The fragmentation of the marketing function is often further supported by isolation of the marketing department from other departments in the organization. Often there is a gap between the marketing department on the one side and the financial department, sales department, research and development department and operations on the other side (Wind, 2008; Kotler, Rackham & Krishnaswamy, 2006). This causes further ineffectiveness.

According to Simon, the marketing function also suffers from the fact that this function never incorporated sales (Simon, 2012). In most organizations, marketing and sales are organizationally different functions (Webster, 2006), which conflicts with the fact that sales represents a tactical marketing function (e.g. Kotler, 2007).

In many companies, the situation is that not only do the marketing and sales teams not work together, but they even tend to fight each other. According to Kotler, Rackham and Krishnaswamy (2006), sales teams often believe that marketers are out of touch with customers, whereas marketing teams believe that the sales force is too focused on individual customer experiences, unaware of the larger market and blind to the future.

Marketers believe that they should have more control over the marketing mix. They believe that they need to have much more influence especially in assigning R&D priorities, selecting channels, determining the product mix and setting prices and discounts (Sheth, Sisodia & Barbulescu, 2006). However, their view is typically not held by their colleagues from other departments who believe that, in general, marketing's influence is where it needs to be.

2 Lack of Convenient Measures for Capturing the Effectiveness and Efficiency of Marketing Investments

It is generally accepted by both business practitioners and academics that senior marketing managers are not able to answer questions about the productivity of marketing expenditures. Even marketers themselves feel that they do not have adequate measures of marketing's impact on the company performance. According to a 2011 IBM study, only 44% of CMOs feel sufficiently prepared to provide hard numbers. The measures of sales and market share which are used extensively by most companies to measure marketing's effectiveness are not adequate because they do not relate directly to marketing's performance (Webster, 2006). Other measures used, such as website traffic, are on the other hand not strategic enough. Linking marketing to financial performance is therefore of the highest priority.

However, making marketing financially accountable seems to be rather difficult. First of all, marketing managers are often not finance-literate and do not have appropriate analytical skills (Webster 2005; 2006). In addition, it seems that at the moment there are no ideal tools which would be generally accepted.

As a result, managers from the finance and engineering departments regard marketing as intuitive and nontechnical (Stringfellow & Jap, 2006). Because marketers cannot prove the return of the marketing expenditures, they are typically hard pressed to justify their budgets. Marketing expenditures are mostly perceived by non-marketers rather as expenses and not investments (Webster, 2006). They are viewed as "soft money" that can easily be cut (Sheth & Sisodia, 2005 and 1998; Raju 2005).

3 Tactical and Short-Termed Orientation of Marketing Departments

Lemon and Seiders (2006) point out that marketing practice has long been focused primarily on immediate results. They also mention that the metrics by which the company's success is measured and reported are mostly short-term. Most companies therefore focus primarily on short-term tactics and sales revenue, not on long-term market-development strategy and profitability (Webster, 2006).

This is in direct conflict with the theory, because many crucial marketing activities do not have any immediate effect on performance (Webster, 2006). However, marketing managers do not find appropriate measures to prove the long-term benefits of their activities.

Under pressure to make short-term revenue numbers, marketing managers often revert to a sales mentality (Webster, 2006). "In the drive to reduce costs, long-term strategic marketing goals of building customer satisfaction, loyalty, and profitability may receive secondary consideration" (Webster, 2006).

The reason for the short-term orientation of marketers can be found especially in the corporate rewards and compensation system which is derived from periodic financial metrics (market share, revenue etc.) and thus encourages a short-term focus (Lemon & Seiders, 2006).

Another problem is that individuals responsible for marketing strategies tend to change their positions frequently. "Marketing managers often begin a new job, develop an extensive marketing strategy, and then move on to another position before the strategy is implemented or evaluated – this means that they are not rewarded for taking a long-term perspective" (Lemon & Seiders, 2006).

At the same time, marketing departments often lack a strategic focus. The focus of these departments is centered primarily on generating new business whereas building customer loyalty is often considered as somebody else's responsibility (e.g. Brown 2005).

For example a study on British companies proved that other business functions perceive marketing as being concerned only with tactical issues, such as advertising and promotions (Stringfellow & Jap, 2006). Marketing thus often devolves into "a department of ad copy and cent-off coupons" (Varadarajan, 2006). In many firms (especially in the B2B sector), marketing even represents only a sales support function.

A study with the CMOs of large Czech-based companies proved that involvement with strategic and non-communication tactical marketing activities was not automatic at all. In fact, 65 % of CMOs mentioned that they were rarely involved or completely uninvolved with brand strategy, positioning, new product development or pricing (Hořejš & Karlíček, 2011).

4 Low Reputation of the Marketing Profession

The marketing profession suffers from low credibility in many companies. A survey of how non-marketing managers perceive their marketing colleagues showed that only 38% of the respondents rated marketing managers as good or excellent, only 18% perceived them as results-oriented and only 34% perceived them as strategic thinkers (Sheth, Sisodia & Barbulescu, 2006). Marketing's relationship particularly with finance seems to be very weak (Sheth, Sisodia &, Barbulescu, 2006).

Marketing managers tend to rate the importance of the marketing function much higher than their colleagues from other departments do. In a study by Sheth, Sisodia and Barbulescu (2006), marketing managers believed that marketing was the second most important business function of all (after sales), whereas non-marketing managers ranked marketing as eighth most important. The situation in B2B companies is even worse, where the marketing function is perceived as marginal. Its importance as a business function ranks only above human resources in these companies (Stringfellow & Jap, 2006).

The marketing department's lack of positive reputation is evident when examining the compensation of the marketing managers. For example, in the United States the average compensation of a marketing executive is only 69 percent of the compensation of a finance executive and only 91% of the compensation of a manufacturing executive (Stringfellow & Jap, 2006).

Additionally, a financial background is valued much more than a marketing background. Among the hundred largest firms listed on the London Stock Exchange twice as many CEOs have a financial background than a marketing background (Stringfellow & Jap, 2006).

The low credibility of the marketing profession is further exacerbated by the confidence of non-marketers about their own capability to make marketing decisions (Grover, 2006). It is generally believed that everybody can do marketing (Webster, 2006). Marketing is implicitly perceived as something easy to learn and marketing knowledge and skills are not appreciated as crucial company assets (Webster, 2006). Therefore, especially in industrial firms, marketing is often denoted to a salesperson or someone with a technical background. This further supports the decline of the marketing competence within the company (Webster, 2006).

5 Possible Resolution

The current problems of the marketing function in many companies call for radical management changes. Steps for leveraging marketing's role have to be undertaken especially by CEOs. However, marketers and business faculties should also react.

The role of a CEO in leveraging the marketing function is critical (Ambler, 2006). First of all, the CEO should recognize and understand the fundamental role of marketing in the long-term success of the company.

He or she should appoint a CMO (as a corporate staff function) who would report directly to the CEO and should have the overall responsibility for branding and business development (Sheth & Sisodia, 2006).

The CEO should manage communication between marketing and other company departments as well as decide which competences belong to each department. He or she should support the marketing function to play its role in various team settings, such as new product development (Stringfellow & Jap, 2006). This is the only way to ensure that the marketing perspective will not be neglected in these settings.

The CEO should also consider changes in the organizational structure. Kotler, Rackham and Krishnaswamy (2006) propose splitting marketing into two groups – a tactical one and a strategic one. The tactical marketing team should develop advertising and promotion campaigns, help salespeople develop and qualify leads, help salespeople selling existing products in new market segments etc. In contrast, the strategic team should monitor the needs of the customer, participate in product development and develop a long-term view of the company's business opportunities and threats. This differentiation would reduce the widespread confusion of marketing with advertising and promotions.

The CEO should support a long-term perspective of marketing's effects on customer equity. He or she should insist that adequate measures to evaluate the marketing programs are proposed by the marketing department. Among them, customer lifetime value is probably the most appropriate for evaluation of marketing programs (Lemon & Seiders, 2006).

At the same time, he or she should lengthen the time horizon for evaluation of marketing programs, because most of them have lagged effects on performance (Lemon & Seiders, 2006). The CEO should also change the reward system of the marketers, with respect to this long-term perspective.

Marketing managers must first of all stop being self-centered and improve their communication and cooperation with other departments. In particular, they have to learn what financial statements mean and how they are created (Webster, 2006). At the same time, they have to raise their analytical and possibly also digital capabilities.

Marketing managers must then make marketing accountable. They should work together with the financial (and possibly also with the IT) department on developing metrics which would measure both the effectiveness and efficiency of their activities and which would be acceptable from both the marketing and financial perspectives. Most probably a variety of measures have to be used. Then they should insist that these key marketing metrics become a part of the group's performance metrics (Stringfellow & Jap, 2006). Only then will the contribution of marketing investments be recognized.

Marketers should aspire to make all the marketing activities coordinated. They should measure both the short-term and long-term effects of their marketing activities and communicate them within the company so that they will enhance the marketing function's credibility and effectiveness (IBM, 2011).

Business faculties should change their educational and research focus with respect to the information mentioned above. Most importantly, academics should be rewarded according to the applicability of their research in business practices. They should focus on topics which are of key importance for companies (for example on defining measures of marketing's performance).

Academics from the marketing department should cooperate with other faculty departments in research in order to provide new and insightful findings. However, they should cooperate with other departments also in teaching to ensure that marketing students will have appropriate financial literacy, finance students will have appropriate marketing literacy, etc.

Conclusion

Marketing orientation is directly connected with the company's performance. However, the marketing function seems to be marginalized in many companies. The reasons for this are, among others, insufficient control of CMOs over the marketing strategy and marketing mix, lack of convenient measures for capturing the effectiveness and efficiency of marketing investments, the tactical and short-termed orientation of marketing departments, and last but not least, the low reputation of the marketing profession.

To leverage the marketing function within a company, the CEO should assign a CMO who would report directly to the CEO and who should have overall responsibility for branding and business development. The CEO should manage and coordinate the relationship between marketing and other departments in the organization, and should ensure that the marketing perspective will not be left out. Splitting marketing into two groups – tactical and strategic – is another possibility to strengthen the marketing function within a company. The CEO should insist that the marketing department proposes adequate measures for evaluation of its programs. He or she should also lengthen the time horizon for evaluating marketing programs and adjust the reward system accordingly.

Marketing managers should improve their communication and cooperation with other departments. In particular, they should improve their financial and analytical skills. They should work together with the financial department on developing metrics which would measure both the effectiveness and efficiency of their activities and which would be acceptable from both marketing and financial perspectives.

Business faculties should focus their research activity on topics which are of key importance for companies. Marketing academics should cooperate with other faculty departments both in research and teaching.

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