Marketing's core role in strategic reengineering
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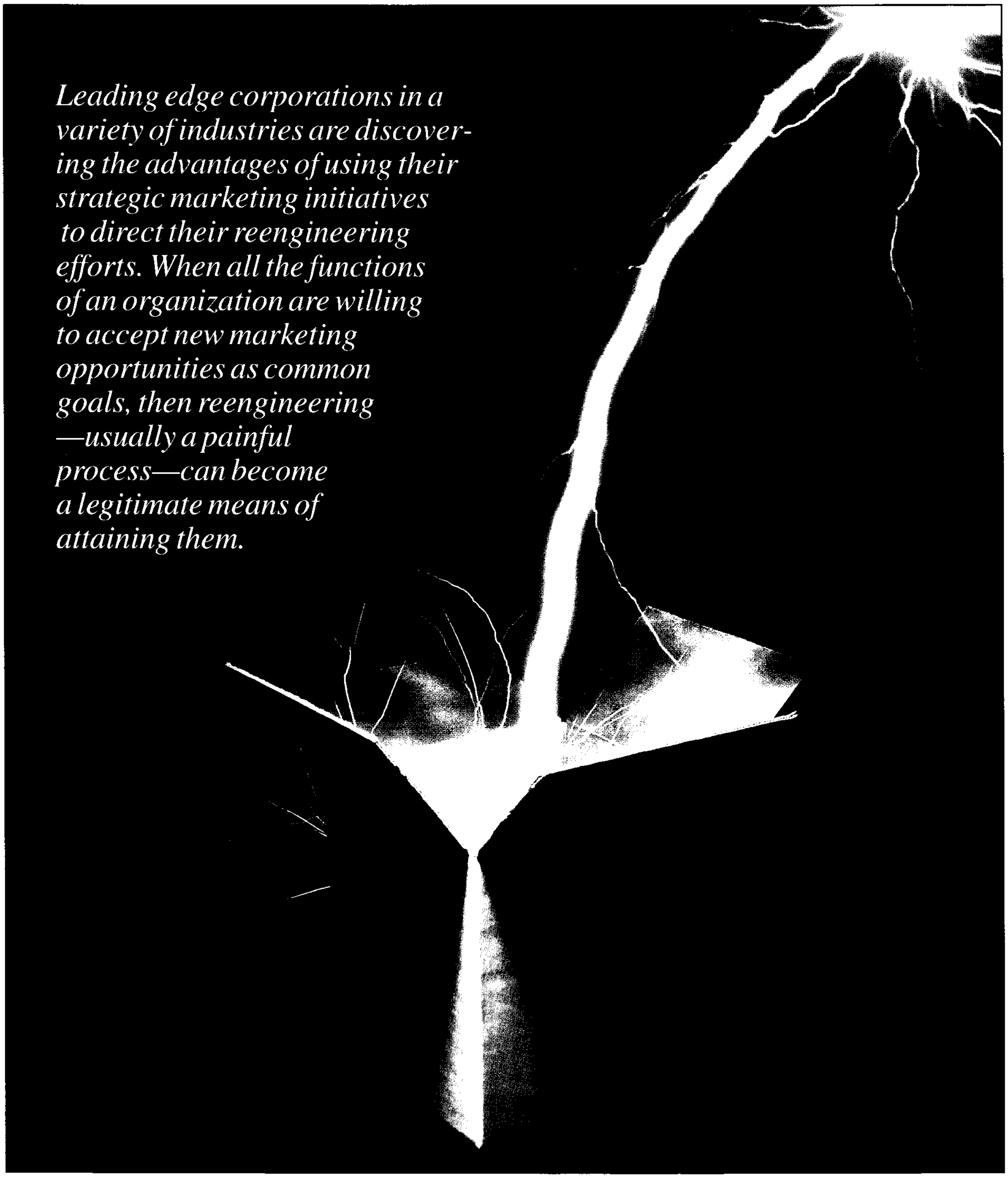
Marketing's Core Role in Strategic Reengineering

By Daniel O. Leemon



American Express recently made headlines with its latest product offering, the Optima True Grace card with no annual fee, a revolving credit line, and a unique grace period from interest charges on new purchases. Designed to compete head to head with Visa and Mastercard, this card is the first of a new product line. In effect, Amex is attempting to transfer its powerful brand equity in charge cards to the larger, highly competitive arena of the bank credit card market.

Other articles in the business press report that Amex has initiated a new round of reengineering. Industry observers surmise that it was triggered by the company's new marketing strategy. Once the fateful decision to try to reinvent the Amex franchise was made, logic would dictate that the company reengineer the complex, expensive infrastructure that markets and supplies services to its green, Gold, and Platinum card customers. Perhaps the large scale reengineering effort—guided by its new vision of its marketplace—will enable Amex to both re-allocate resources and lower its offering costs, a combination needed to be competitive in its new market.

its important new roles in the reengineered organization, however, it too will

Leading edge corporations in a variety of industries are discovering the advantages of using their strategic marketing initiatives to direct their reengineering efforts. Individual lines of business need a coherent vision of potential market opportunities before attempting to reengineer their processes. The marketing function, with its unique perspective on customers, products, and competitors, should take the lead in defining marketing opportunities and rallying the whole organization to support them. When all the functions of an organization are willing to accept new marketing opportunities as common goals, then reengineering—usually a painful process—can become a legitimate means of attaining them.

It is no secret that many of the companies using reengineering technology merely as a cost-cutting tool have found that the savings they achieved did not translate to long-term competitive advantage. As experience with reengineering grows, more managers are realizing that it should be driven by a strategic view of market needs.

The concern that marketing is being neglected in the reengineering process was echoed many times in a series of interviews conducted recently with senior executives of the largest consumer goods companies. The research goal was to understand just how these organizations were responding to pressures from competitors, consumers, and retailers. What the senior executives told us matches what we've observed in other industries and points to some of the shortcomings in the way many companies are trying to get leaner, faster, and more customer-focused.

While the executives of every packaged goods company we spoke with still claim a fundamental consumer orientation, the vast majority of their recent organizational and process changes have focused on responding faster and better to the demands of retailers. Marketing, with its consumer orientation, seems to have gotten sidelined in the race for "partnership with the trade." One CEO put it simply, "It's hard to stay focused on the consumer when you're busy responding to Wal-Mart." True enough, but increasing pressure from the marketplace is also what makes effective marketing that much more important.

Although nearly half of the companies we surveyed say they have "reengineered" sales, only 15 percent have included marketing in the process. Our interviews identified new product roll-out speed as a primary area for improvement. Yet only a third of the companies say they have reengineered across the marketing-manufacturing boundary. Why isn't marketing more involved in driving these reengineering efforts?

What Does Marketing Do?

One reason that marketing may be getting overlooked in the reengineering process has to do with how reengineering is usually conducted. To make reengineering more manageable, most companies try to identify the specific cross-functional processes that deliver customer value. They often start by defining four generic core processes:

- Offer creation—new product or service development.
- Offer-to-order—getting the customer to buy.
- Order-to-cash—producing, delivering, and getting paid.
- Customer service—dealing with problems, soliciting feedback.

Next, the usual procedure is to divide these processes into a number of distinct sub-processes. The reengineering team then searches in each sub-process for the levers to improve performance in meeting customer needs.

For most functions, the link to filling customer needs is straightforward. Manufacturing's mandate is to produce differentiable, valuable quality at a competitive cost. The sales groups' mandate is to deepen customer relationships

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and form customer partnerships. R&D has to focus on faster development times aimed at filling unmet needs.

Marketing's part in making customers happy, however, is less obvious. This is because it's difficult to identify a measurable customer benefit from marketing activities in any narrowly defined process. Marketing people don't take the orders, or produce widgets, or line up distributors, or handle complaints, or keep the books.

Even marketing people themselves often find it difficult to define their position in the reengineered organization. While their functional responsibilities with market research, brand positioning, advertising, and product literature continue to be important, their new cross-functional role too often remains unclear, even to them.

Putting the Reengineered Parts Back Together

Most companies haven't yet approached the phase in their reengineering efforts where they put the subdivided processes back together. But the ones that are coming close are beginning to worry about the results. They often find that the optimized parts don't automatically come together as an optimized whole. What's lacking is a marketing discipline that integrates and brings coherence to the day-to-day activities of the customer-oriented processes. The reengineered processes have no marketing links to hold them together.

Marketing is the one function that can deliver that missing coherence, because only marketing can address such issues as:

- What kinds of customers do we want to attract?
- What's most important to those customers?
- How can we best reach and serve them?

And, most importantly:

- How will this bring sustainable competitive advantage and high shareholder returns?

If marketing is doing its job it should have the information to answer these questions. Analyzing and understanding this information can unlock opportunities for a company to find increased value—market share growth, price premiums, add-on products and services. A coherent marketing strategy can draw together all customer-oriented processes, as well as provide a link between strategy and tactics, by making sure that long-term market goals are being addressed in the company's day-to-day activities. As the company reengineers its physical processes, marketing's job is to make sure that the company reengineers information processes for maximum value.

Marketing's job should be to establish and enforce marketing disciplines—such as focusing on the long-term needs of the more valuable market segments—as goals for the processes that directly touch customers. Marketing, with its valuable insights into customers and competitors, must link with sales, manufacturing, and customer service to ensure that the key cross-functional processes, such as offer-to-order and order-to-delivery, are consistent with the company's overarching strategy.

Some consumer goods companies are heading in this direction. They've redefined marketing as "category management" and made it responsible for ensuring that all the business processes work to enhance the brand equity for a particular category of goods. Yet even these companies are finding that instilling a coherent marketing view into reengineered processes is hard work. It must be thoroughly planned and carefully managed.

Linking with Information

What specific roles can marketing play in drawing together reengineered processes under a common banner? One of the more valuable contributions that marketing can make is the information it gathers, analyzes, and distributes across functions and throughout processes.

For example, we interviewed top management at Frito-Lay, which consistently delivers superior product innovation, brand value, and field execution. The result is superior shareholder returns. A primary reason for this success, according to the CEO, is its marketing information capability. Massive investments were needed to consolidate a marketing data base of reconciled research, pricing, and shelf-movement data. After the data base was analyzed consistently, it was made available to all functions. The CEO refers to this process as a "12-year overnight success." His rationale for this approach is, bluntly, "You just can't allow a 28-year-old brand manager to guess." The company recognized years ago that one way to forge cross-functional teamwork is to provide reliable marketing information so that "the managers can argue about what to do, not whether the numbers are right."

For any function or process, marketing should be able to answer such strategic questions as:

- Who are our most profitable customers (distributors and end-users), and why?
- What makes customers—ours and our rivals'—unhappy?
- Which competitors are most vulnerable, and in which customer segments, channels, and product lines?
- What are the opportunities to increase our growth and profits by improving the full cycle of marketing—converting a suspect to a prospect, a prospect to a customer, and a customer to a loyalist? Where is the leverage?
- What is the message we want to send to customers across all of our interactions with them—from media to sales to accounts receivable to service?

Indeed, marketing should be so good at supplying answers to these strategic questions that other functions want marketing managers to attend every planning meeting and participate in every customer-oriented process redesign.

Linking with Common Measures and Incentives

Marketing's integrative role goes beyond its information capabilities. To make multiple functions work together effectively for the customer, the quality of the entire process needs to be measured and rewarded for its contribution to shareholder value.

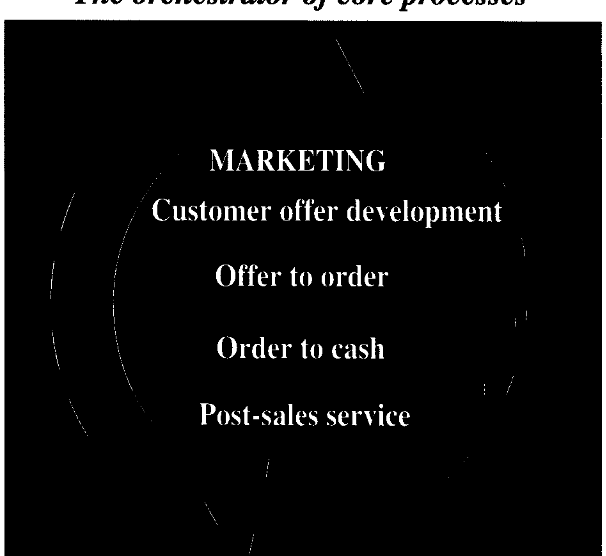
The CEO of a branded goods business cited this objective as one of the most significant challenges for true marketing coherence. In his company, marketing's job is to work with all of the processes to increase the return of the brand over time. To accomplish this, marketing has to orchestrate functions with different roles:

- **R&D** must be ready with state-of-the-art technology and be able to prototype and test quickly.
- **Manufacturing** has to gear up quickly to minimize the time between product introduction and competitor imitation.
- **Sales** has to get the distribution channel committed and the new product onto the shelf.

The Process View: How Marketing Needs to Change

In recent years, marketing's job has changed radically (see Exhibit 1). In the old model, marketing took its analysis and "threw it over the wall" to the other functions. In the reengineered company, good products develop from a close-up, day-to-day understanding of customer needs and dissatisfactions. Customer loyalty depends on the service levels of delivery and follow-up as well as on the performance of the product itself. Marketing's new role is to translate the overarching business strategy ("what business are we in?") into process performance that will ensure the highest possible sales to the most valuable customers. Marketing must change from "functional expert" to "process orchestrator." Marketing must assert the power of its knowledge and expertise, yet tactfully assume its place in the customer-driven processes alongside functions such as sales and manufacturing.

EXHIBIT 1:
A NEW MODEL FOR MARKETING
The orchestrator of core processes



"Process orchestration" becomes an inherent part of what marketing does. Here are some examples:

L'Oreal. This hair products company has achieved true category management by making its marketing function the link between global markets, brand positions, sales channels, and product performance. One of the keys to L'Oreal's success is its ability to orchestrate the integration of product innovations into many markets: ten brands and price points across four divisions in markets around the world from Australia to Germany. The marketing manager must foster a healthy degree of inter-brand and inter-product competition, while ensuring maximum return on the R&D investment. Fortunately, L'Oreal has a strong culture of cross-boundary cooperation and informal communication. Without a clear focus on brand value, and without this kind of intense marketing-driven coordination, L'Oreal would not be able to manage across so many brands, products, and channels with world-beating success.

Gillette. Gillette's relentless drive to innovate has been well documented. The CEO compares their R&D policies to those of pharmaceutical houses. Gillette has continued its focus on innovation despite the types of downsizing and restructuring that have decimated the marketing capabilities of other consumer goods producers. Despite an eight percent reduction in its workforce, Gillette stayed with its focus on customer needs, and its Sensor razor owns the highest-priced 20 percent of the U.S. market as a result.

Like Frito-Lay, Gillette also looks at marketing holistically, using its innovation to feed its excellence in distribution and in-store presentation. Perhaps this can best be seen in how Gillette takes its brand to developing markets. In Russia, for example, Gillette is installing its free-standing kiosks in the marketplaces. These kiosks sell five separate product sets, each with a distinct price point—from low-priced safety razors to Sensor, its top-of-the-line product.

Yet in this organization's new category-managed environment, not only aren't these functional players accustomed to sitting at the same table, they're all operating under different measures of success.

Marketing, it turns out, is the only function measured on long-term profit and loss. The others have different incentives. R&D is run as a cost center, and encouraged to outsource primary technology. Manufacturing, too, has cost-oriented incentives, best met by long runs of simple products. Sales is measured on volume and therefore not motivated to take time and resources away from selling established products to build a market for new ones.

These differences, according to the CEO, are the vital hurdle his company is struggling to leap: "We put a cross-functional team together, and the senior manager ends up having to knock heads because the participants don't have the same motivations." No amount of process redesign will speed up the roll-out and innovation cycle until process measures are agreed to and incentives are aligned. This CEO sees marketing as the discipline that can help align these measures and incentives.

Another senior executive going through similar problems at his company summed up much of his organization's struggle this way: "We haven't reengineered marketing—we've reengineered around marketing." In many companies, reengineering has left a dispersed set of processes, run by managers from different cultures with different incentives. No one below the general manager is responsible for a coherent underlying marketing strategy.

One large packaged goods company we surveyed is now putting strategic marketing back at the center. Under pressure from retailers, they were offering as many as 200 different customized promotions a year. The company is now refocusing around a core marketing strategy, and pulling back to ten big annual programs. "We understand our categories," the CEO told us. "We know what the consumer wants in those categories, and we'd better take command of the situation or the retail channel will take it away from us." An integrated underlying strategy is key.

Changing Marketing's Culture

Before marketing can fulfill its important new roles in the reengineered organization, however, it too will have to change. For its part, marketing has traditionally looked at sales as little more than a conduit to the customer, and manufacturing as a remote black box. By fancying itself as the brains and sales and manufacturing as the brawn, marketing has been ill-suited to encourage cross-functional teamwork. Yet today's competitive environment demands that marketing work closely and cooperatively with other functions. This amounts to a significant cultural change.

In the past, marketing people were hired for their mix of analytical and creative skills, not because they might make good collaborators and general managers (and, for the most part, they haven't). In industries such as branded consumer goods, where marketing has been king, they've tended to develop isolated ivory-tower mentalities. In industrial goods, they've often faded into the background or become product technicians instead of market experts.

In one company we visited, part of the reengineering effort involved moving the cross-functional brand/market teams together onto floors with small, open offices and lots of shared meeting space to encourage teamwork. But when the marketing people saw the new setup, they revolted. After their functionally segregated upbringing, this was a major culture shock.

A number of consumer goods company executives we spoke with see the traditional marketing personality as a significant impediment to progress. They report that their marketing managers lack the generalist skills needed to collaborate with other functions. And they also note that the marketing people have little experience in designing measures and incentives that get all of the functions working together for long-term, customer-oriented goals.

One U.S.-based company has solved this problem by importing its marketing managers from Europe. It found that European managers, with their experience in managing all parts of smaller overseas market operations, have acquired the cross-functional skills necessary to instill common goals and teamwork.

How a Financial Services Company Redefined Marketing's Role

Marketing managers in the reengineered organization must be able to talk to and receive feedback from functions that are typically not marketing driven and not schooled in marketing's traditional language.

Here's how a wholesale financial services company we worked with recently started from scratch to create this new kind of marketing capability. Theirs is a dynamic, technology-driven business, with a broad spectrum of potential customers, products, and market segments to choose from.

Before this company set out to reengineer its processes, the marketing department had been little more than a communications function that provided collateral material and prepared sales presentations. Neither the sales force nor the product engineers went to market with any clear sense of the company's long-term priorities. As measured by customer perceptions, the sales force was the best in the business. But their reputation was earned at the expense of efficiency. That is, the skilled salespeople demanded and usually received quick responses to almost any customer request they sent back to headquarters because there was no way to differentiate between high- and low-priority segments or products.

The result was a wide range of custom products and idiosyncratic production processes, which were both expensive to run and difficult to expand. Since many customers and products were unprofitable, customer service and production costs began to grow faster than revenue, and no one knew when or how to say "no."

The company eventually realized that it needed a central marketing discipline that would connect all of its processes to common business goals. To accomplish this, it first determined marketing's potential role in the company's key processes—strategic planning, new product development, account planning/sales, order-to-delivery, and post-sales service. These processes were then analyzed to discover what marketing-oriented information they required and what cross-functional impediments (skills, measures, incentives) might limit the effectiveness of marketing's involvement.

The company brought in marketing managers whose primary qualifications included a broad knowledge of the business, market analysis skills, and a familiarity with information technology. To make this new focus effective, the organization hammered out agreements on measures based upon long-term customer profitability, for which they would be jointly accountable.

Marketing in this company now provides process linkage in a number of ways. It manages a new customer profitability-based information system, analyzes long-term market trends for strategy formulation, and it designs and coordinates research on competitive customer satisfaction—an activity which is actually conducted by the sales

Continued on page 46.

Marketing So Imp

The consumer goods industry's recent experience with reengineering highlights the importance of marketing. In branded goods, the ultimate business goal is str ikingly simple: to maximize the net present value of the brand premium. Put more simply, the company's purpose is to deliver differentiated value to consumers over as long a time as possible, thereby maximizing the amount of brand premium it collects. Brand premium dollars are maximized when new products offer real differentiated value, when they are taken to market quickly, and when the marketing processes succeed more often than those of the competition. Making all of this work requires superior marketing insight communicated to cross-functional processes that are fast and effective.

HAMEL & PRAHALAD, *from page 45.*

of success and failure constitute powerful evidence that they've got it right.

Among the useful iconoclasms introduced in this book is the assertion that we need to drive or lead customers, rather than being market- or customer-driven. Customers are notoriously poor at imagining the usefulness of truly innovative products, the authors point out. Cellular telephones, CDs, ATMs, or home shopping networks, to cite a few of the book's many examples, were not brought to market because of consumer demand. Innovative firms do more than improve quality—they invent new products and businesses. For instance, take Sony's Walkman, or its new line of audio equipment for preschool children.

The limitations of *Competing for the Future* are most evident when it's time to detail the plan for implementation. It requires no extraordinary insight to note the prevalence of managerial torpor or arrogance, and an attachment to existing paradigms. What's needed is a surefire system for overcoming this endemic inertia. And, we'd like to ask the authors, how exactly does one invent the next industry? Unfortunately, readers of all their *HBR* articles won't get too many revelations about implementation from this cut and paste collection. (See "How to Reshape Your Business to Fit the Future," an interview with Gary Hamel by Robert M. Randall in the January/February issue.)

Nevertheless, if Hamel and Prahalad fall short of giving us the full script for invention, they do show clearly why many managers and their businesses are on the verge of extinction. They warn that a new species of competitor—more than likely developing in what we currently now assume to be alien industries—will eventually drive most of us out of business. Every thoughtful strategic planner and every executive intent on revitalizing a business needs to heed their tocsin. □

STRATEGIC MARKETING, *from page 13.*

force. Marketing also serves as the "organizational conscience" on the customer value potential of reengineering and systems investments in the back office.

Marketing still produces the company's advertising, collateral material, and sales presentations. But now it does much more. Now, through account planning based on a clear view of the company's long-term strategy, marketing is helping to identify customers who need more service than the company can afford to give them.

Unprofitable products and customers are being dropped. And, for the first time, a far-reaching systems design and implementation project is being guided by customer needs. Valued customers will receive even better service than before, and the company will be able to respond to customized needs more quickly and thoughtfully.

Lessons Learned

Ninety percent of the companies we surveyed claim to have restructured their marketing function. Yet because they've tried to attack process problems one at a time, most say there is still significant room for improvement, especially in customer targeting, new-product commercialization, and innovation.

Those that have advanced the furthest offer four important lessons from their experiences:

- **Start with a coherent, marketing-driven strategy.** Who are the most valuable consumers? What makes them unhappy? What are they willing to pay for solutions to their problems? What is it worth to shorten the innovation cycle, build presence, or contain competitor growth? The organization needs a common vision of opportunities before it knows how to deliver the rewards of category strength, product value, and customer relationships.
- **Link processes to strategy.** Orchestrate all of the processes around a central strategy. Each function should clearly understand how it contributes to the key processes supporting the strategy. If the true goal of reengineering is to get more value from strategic opportunities, then reengineered marketing-related processes need to be orchestrated to make the right things happen together.
- **Align information and incentives.** Organizations need a simple set of measures, intelligible to everybody, that tell them how well they are contributing to the company's long-term position in its markets. All segments of the company need to share the same crucial information and understand what it's telling them about what their customers want.
- **Don't expect dramatic changes overnight.** Marketing cultures are strong. Creating cross-functional teams and merely locating them on the same floor doesn't automatically lead to better performance. Allow time for people and processes to achieve the right degree of change.

In the reengineered organization, marketing must become the integrator of customer-oriented processes as well as the link between strategic direction and everyday execution. This means that marketing must make itself welcome in those areas of the company where it is most needed by helping others translate insight into action.

The new marketing managers must make the case for strategic information investments and aligned incentives, and demand that all processes are coherent with marketing strategy and customer needs. This requires an uncommon mixture of analytical, process, and management skills.

Releasing the powerful integrative potential of marketing is the next challenge for the reengineered corporation. The winners will be those marketers who can target their companies' newfound efficiency, speed, and flexibility to the most important needs of customers and markets. □