

W O R K S M A R T E R

Smart marketers meet the challenge of delivering better results by investing in marketing performance capabilities.

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Marketing is challenged. We find the world is growing smaller, technologies are transforming industries, information is more accessible and abundant, and consumer power is rising as social networks make new connections possible. However daunting these exogenous influences may be, they also might be the least of the challenges marketing faces. Marketing's greatest challenge, its Everest to climb, consists of redefining its role, scope and influence within the organization—which previously has been too narrow in practice. A wider scope will allow marketing management to develop capabilities that help with better decision making and better control of the customer experience.



EXECUTIVE briefing

Prior research examining the impact of marketing on business performance helped establish a connection between marketing expenditures and firm performance. We've built on that research, and extended it to deepen our understanding of the marketing function and its impact on short-term and long-term firm performance. The "work harder" orientation (spend more to perform better) of such research ignores the relevance of marketing acumen and capabilities, thereby underestimating the return on marketing spend for competent organizations. Our findings show it pays to "work smarter." Firms that invest in marketing capabilities capture benefits through results in both short-term and long-term business performance.

To best cope with the external changes, marketing needs to change from a mere execution service to a more robust function that invests in resources and capabilities. The aforementioned dynamic external environment has made it necessary for many marketing departments to reorganize themselves and their processes, and hire new kinds of people with a different set of talents to meet the challenge of operating in these complex new environments.

Marketers have had to invest a great deal more in technology, including in data warehouses to house large quantities of transactional information about customers—collected across these marketing challenges. They also have developed sophisticated campaign management systems to communicate with customers across channels. Additionally, managers have invested marketing resource management tools to organize complex work flows and meet demands for increased transparency and compliance. They have also had to build dashboards and measure both the highly fragmented marketing spending and the returns on that spending with a great deal more discipline.

How can marketing executives justify this additional spending on building capabilities and infrastructure? Does it not add overhead and take away from spending against marketing programs? If the return on investment on marketing expenses can be challenging to measure, the justification on investment in building longer-term capabilities can be infinitely more difficult. It makes intuitive sense that investments in marketing capabilities can make marketing spending (i.e., the traditional marketing mix) more effective and efficient. But is it true? We researched this question by surveying senior marketing executives. Their answer was a resounding "yes!"

Our study was designed to separate out the impact of investment in marketing capabilities from the impact of spending on marketing programs. We surveyed a broad cross section of senior marketing executives across many industries and companies of varying sizes. Respondents included executives from Microsoft, Cisco, Wendy's, Kodak, Intel, Royal Caribbean, Coke, HP, Fidelity Investments, Yahoo, TD Bank, Kroger and Harris Corporation—to name a few.

Of a total of 700 executives who were contacted, 159 responded to an online survey. The survey included more

than 75 questions that asked about their capabilities in a number of dimensions—organizational, process, technology, measurement, information and analytics, and strategy. We also queried them about how well their organizations did on a range of measures of competitiveness in their marketplace, growth, stock price performance, marketing spending, the competitive environment they operated in, their customer orientation and agility. We used a modified measure of customer orientation that included customer satisfaction, customer value, relative customer focus and the impact of customer information on offers (products and services). The survey took about 20 minutes for respondents to complete, and the incentive offered for those that completed the survey was a summary report of the findings.

Big Questions

The typical effort to identify the impact of marketing spend follows an input-output regimen, giving no credit to marketing acumen or ineptitude. This represents a "working harder" perspective vs. a "working smarter" perspective. Prior work (done in 1994) by Harish Sujan, Barton A. Weitz and Nirmalya Kumar found that a learning orientation, which "goal orients people to improve their abilities and master the tasks they perform," inspired salespeople to "work smarter" and "work harder." This is in contrast to a performance orientation, which provoked salespeople to "work harder" but not "work smarter."

Research by John C. Narver and Stanley F. Slater in 1990 and by Bernard J. Jaworski and Ajay Kohli in 1993 examined the impact of a market orientation on firm performance. Narver and Slater defined a market orientation as trifurcated into customer orientation, competitor orientation and inter-functional coordination. Jaworski and Kohli use the threefold combination of intelligence generation, intelligence dissemination and responsiveness to the intelligence. Our research builds upon and extends that earlier work to include elements such as an assessment of marketing functional capabilities, relative spending levels on capabilities, information assets, customer orientation, organization agility, actionable strategies, effective processes, appropriate measures and learning orientation.

We believe that marketing capabilities enhance the quality of decision making and outcomes, serving to amplify the effect of marketing spend. These expectations are captured by the model illustrated in Exhibit 1.

There are a few different ideas captured in this picture.

1. Organizations that have a longer term orientation and are customer centric are more likely to invest in longer term marketing capabilities.
2. Marketing program expenditures impact short-term performance (i.e., volume/revenues and market share), as well as longer term measures including five-year revenue growth rates and stock price appreciation.
3. Investment in marketing capabilities has an indirect, multiplier effect on the impact of marketing program expenditures by making them more effective.
4. Investment in marketing capabilities also has a direct impact on long-term performance indicators such as five-year average growth rates and stock (shareholder) value.

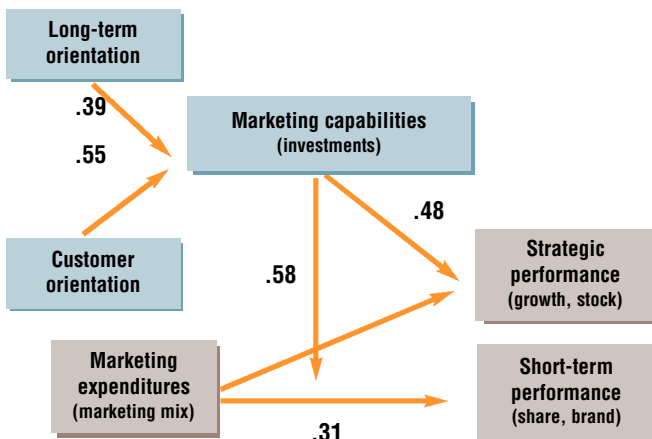
The Discovery

All of the measures used in the study were statistically reliable and valid. As a first step, we looked at simple standardized correlations between these different sets of measures. This gave us a sense of which measures tended to move in tandem. The actual correlations, all of which were positive and statistically significant, are shown in Exhibit 1.

While marketing expenditures (short-run marketing mix resource allocations) have a positive impact (correlation = 0.31) on short-term performance, what was interesting was that there was only a weak correlation (0.13) between these

Exhibit 1

Working smarter model and results



Source: Quaero/Emory Research

expenditures and long-term, strategic performance. These findings echo existing knowledge regarding the impact of marketing spend.

As would be expected, investment in marketing capabilities did not directly affect short-term performance. Marketing capabilities did, however, have strong direct and indirect effects on marketing performance. In fact, the strongest relationship (correlation = 0.58) was the multiplier effect of marketing capabilities on short-term impact of marketing program

Marketing capabilities did have strong direct and indirect effects on marketing performance.

expenditures. This implies that the impact of direct spending on marketing is magnified when it is backed up by investments in underlying capabilities. In addition, investment in marketing capabilities had a strong impact (correlation = 0.48) on strategic, long-term performance.

As expected, marketing capabilities are enhanced by both a customer-orientation (correlation = 0.55), as well as a long-term focus (0.39). This implies that companies that scored high on being customer focused and had a long-term orientation also tended to score higher on their investments in long-term marketing capabilities—which makes sense.

Which Capabilities Matter Most?

Clearly, investment in marketing capabilities and marketing programs complement each other very nicely. So when it comes to allocating the overall marketing budget, it should not be thought of as programs vs. infrastructure—but rather, how best to invest in infrastructure so as to maximize the impact of the actual marketing spend.

In the second phase of the analysis, we drilled down a little deeper into the questions around capabilities to tease out the primary areas and identify their impact on performance—as well as their interaction with marketing spending. We also modeled the impact of marketing program expenditures and the primary dimensions of capability on short-term performance and long-term performance independently, using multiple regression.

The responses to the questions around marketing capability grouped themselves into three primary dimensions:

1. Strategy and processes. This included a company's ability to develop actionable strategies, business processes capabilities to implement strategies, and appropriate information assets and measurement methodologies to monitor and guide process implementation.
2. Organizational alignment. This dimension of capability

examined the strategic alignment of external strategy with internal operations and organizational structure.

3. Technology enablement. This examined the strength of enabling technologies (e.g., customer relationship management) to support marketing actions.

Short-term performance was driven primarily by strategy and processes (0.63) and by marketing expenditures (0.46). The numbers in parentheses are standardized coefficients, and indicate the relative impact of the two drivers on short-term performance. These results are shown graphically in Exhibit 2.

The drivers of long-term strategic performance were more complex and interesting. Interestingly, marketing expenditures had little to do with strategic performance. (See Exhibit 3.) The drivers in declining order of importance included the following:

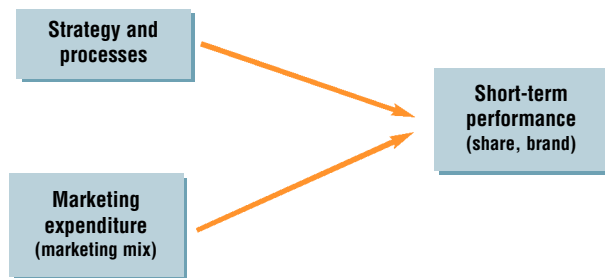
1. The most important driver of long-term performance was the interaction of organizational alignment and marketing expenditures (0.84).
2. Three other factors were all equally important.
 - strategy and processes (0.62)
 - organizational alignment (0.62)
 - interaction of strategy and process with marketing expenditures (0.61)
3. The smallest (but still statistically significant) impact was the interaction of enabling technologies and marketing expenditures (0.20).

Of all of the capability areas, organizational alignment was the most significant driver of long-term performance—both directly and via interaction with marketing expenditures. It measures how well marketing was aligned internally (in terms of having the right people in the right seats), as well as with the rest of the organization (in the sense of having shared objectives, goals and inter-linked processes). Strong alignment underscored better long-term performance. Further, marketing expenditures had a stronger impact on long-term performance when backed by organizational alignment. This might seem obvious, but many marketing organizations seem to be poorly aligned within their own functional areas—as well as with the rest of the company. Many marketing departments have also struggled to change their skill mix to respond to the changing needs of their markets and serve emerging channels. Spending more on marketing programs in such an environment does not lead to sustained long-term performance. However, the best recipe for long-term strategic success included marketing expenditures that were incurred by strategically aligned organizations.

Interestingly enough, enabling technologies by itself was not a significant driver of either short-term or long-term performance. Again, this confirms our own experience working

■ Exhibit 2

Drivers of short-term performance



with multiple organizations. The best software and infrastructure does not get you any gains in performance, unless this infrastructure build is preceded by the hard work of figuring out your marketing strategy, mapping out your processes and ensuring that marketing is well aligned with other parts of the organization. Then (and only then) does increased program expenditure lead to significant and sustainable long-term performance—as demonstrated by increases in customer satisfaction, high rates of consistent revenue growth and enhanced shareholder value.

Case Studies

Exhibit 4 compares results from two companies (A and B) that participated in our study. Both rated their marketing expenditure levels about the same (3.2). However, company B's investment in marketing capabilities was significantly more than company A's (3.6 vs. 3.0). The impact of this on short-term and long-term performances demonstrates the

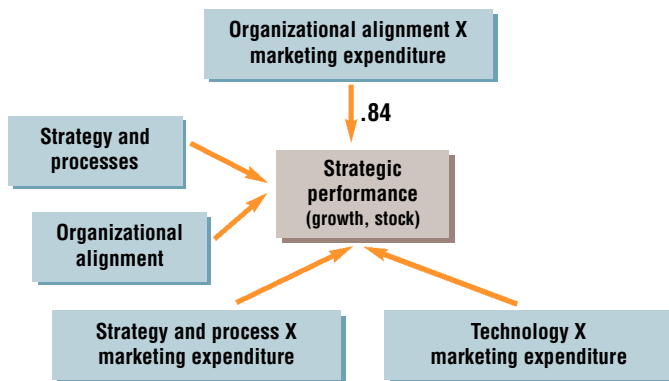
It is the strategic alignment of marketing activities and operations that underscores long-term strategic performance.

power of investing in marketing capabilities. Company B's short-term performance was rated as 3.8, compared to company A's 3.1. More impressive was company B's long-term performance, which was 4.5 compared to 3.0 for company A. Clearly, investing in marketing capabilities has the multiplier effect.

We recently did some work with a major credit card company. The company was struggling with diminishing marketing program effectiveness, across all channels. Originally, we were commissioned to design a more optimal process that

Exhibit 3

Drivers of strategic performance



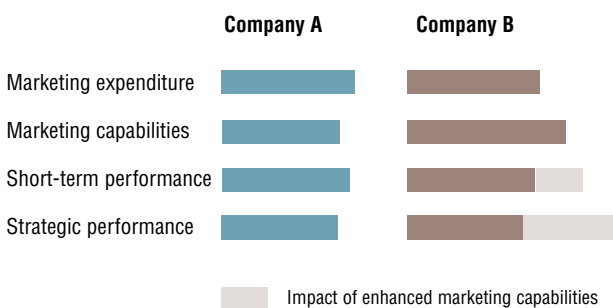
streamlined the interactions between marketing, risk, and finance—since the client felt that the process breakdowns were the primary cause. On further investigation (using a tool similar to that used in this study), we concluded that the underlying problem was actually the lack of strategic alignment—which was, indeed, driving overly complex processes. These processes put undue strains on people and systems, resulting in decreased effectiveness across the board. Once strategic alignment was achieved, the effectiveness of marketing programs improved—as predicted in the work smarter model discussed previously.

The Takeaways

Prior research, examining the impact of marketing on business performance, set the foundation for this current research and pointed us in the right direction of seeking to establish a connection between marketing actions and firm performance. However, the “work harder” orientation (spend more to perform better) of prior research ignores the relevance of marketing acumen and capabilities, thereby underestimating the return on marketing spend for competent organizations. Our findings show it pays to “work smarter” in the marketing function, for its impact on short- and long-term performance.

Exhibit 4

Impact of investing in marketing capabilities



Marketing strategy and process capabilities are in and of themselves strong drivers of both short-term and long-term performance. Marketing expenditures certainly do drive short-term performance. Interestingly, it is the strategic alignment of marketing activities and operations that underscores long-term strategic performance. It is in the presence of such alignment that marketing expenditures are most productive in building long-term value.

This research is just the first step in teasing out the value of long-term investments in building marketing capabilities. It is difficult to measure the impact of these investments within a single company. That’s because the impact is felt over a long period of time, as well as because it is difficult to isolate the impact of investments in capability from the effect of spending on marketing programs. However, senior marketing executives need the ability to justify these vital investments, so that they can meet the challenges of an increasingly competitive world. This is going to be a formidable challenge for marketing executives. We hope this research helps in highlighting the problem, and in leading the way in further quantifying the impact of these investments in the future. ■

Additional Reading

Jaworski, B. J. and Kohli, A.J. (1993), “Market Orientation: Antecedents and Consequences,” *Journal of Marketing*, 53-70.

Narver, J.C and Slater, S.F. (1990), “The Effect of Market Orientation on Business Profitability,” *Journal of Marketing*, 20-35.

Sujan, Harish, Barton Weitz, and Nirmalya Kumar (1994), “Learning Orientation, Working Smart, and Effective Selling.” *Journal of Marketing*, 58.(July) 39-52.

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