Restoring Relevance to the Marketing Department: DISMANTLING THE BRANDOCRACY

By Sam I. Hill, David L. Newkirk and Wayne Henderson

Loyalty to brands has been declining. But don't blame it on the consumers. A new, more analytical marketing model is needed, one that sheds more light on the myriad of customer needs and understands the value of relationships.

In many brand-based companies, the marketing department is fast becoming irrelevant. Its traditional unofficial role as source of company profits and future company leaders has been usurped by the sales and finance departments. Even activities considered core to the marketing function are now moving to other units. For example, marketing controlled two-thirds of all promotional dollars (including advertising) in 1985; it now spends well below half. And the important marketing decisions are moving up and away from the brand group.

The reason for this change is straightforward. Most senior line managers are frustrated with the performance of their brand management organizations. Despite considerable activity, brand managers have created few new businesses. Indeed, many of the most exciting and vibrant "brands" appear to belong to the retailer, having been created outside the traditional product marketing structures altogether. For many consumer goods companies, the only real organic growth they have seen in the

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BY FOCUSING ON SHORT-TERM PROMOTION, MARKETERS MAY HAVE TRAINED CONSUMERS THAT BRANDS ARE INTERCHANGEABLE

last decade has been in the size of the marketing organization. Marketing departments have become brandocracies, with escalating costs and suspect effectiveness.

Even by measures marketers themselves use, performance has been disappointing. Share of market has long been the primary benchmark of success, but most recent share gains have proven to be temporary, the result of customers temporarily attracted by price cuts and promotions. These switchers then leave the brand or product as soon as the special is over, a situation our colleague at Booz-Allen & Hamilton, Barrie Berg, characterizes as "rented share." (Obviously, variable consumption and impulse products are notable exceptions.)

Poor marketing has not just exacerbated this behavior, but may in fact have created it. By focusing on short-term promotion, marketers may have trained consumers that brands are interchangeable, and by not giving them a reason to buy beyond pure price, encouraged them to buy only on promotion. Critics submit that marketing has failed in its role as custodian of brand equity, and this erosion of equity has fundamentally reduced the underlying value of branded consumer goods companies.

In short, there is almost universal agreement that the brand management model, the ubiquitous and unchallenged standard for more than 60 years, is in trouble. But there is no clear agreement on how to fix it.

Numerous companies have tried taking several routes. One approach taken by many, in both products and services, is to install matrix organizations on top of the traditional brand structures. In these companies, marketing initiatives are controlled jointly by geographically based units, e.g. regions, in partnerships with global brand or category managers, who in theory reconcile the demands for global scale and local responsiveness.

Other companies have spread responsibility for brand management across teams of functional managers. In these organizations, the critical marketing decision-making is often now dominated by the salesforce, who have replaced their army of old-time field salesmen with M.B.A.'s from top schools and increased their knowledge base exponentially. As the salesforce has become more capable and articulate, so has the proportion of marketing money spent on the trade rather than on traditional media. Finally, virtually every consumer organization today is experimenting with direct marketing.

For the most part, these finetunings have not worked. The matrices and teaming have often worsened the situation, creating even more brandocracy and more ponderous decision-making. The changes thus far help mitigate the inherent inefficiency of the brand management model, but they do not address the more essential issues of lack of growth and value creation. The world that created the brand management model has changed. The problem is not with how the brand model is implemented, but with its fundamental logic.

MARKETING DINOSAURS

In one of his famous "Far Side" cartoons, Gary Larson shows a professorial stegosaurus addressing a convention of dinosaurs: "The picture's pretty bleak, gentlemen . . . The world's climates are changing, the mammals are taking over and we all have a brain about the size of a walnut." The leading consumer goods and services organizations are in some ways like dinosaurs —

Illustration by David Smith

extremely successful, but poorly prepared for a changing world. Some of these great marketers might well object to the comparison to dinosaurs. But there are some clear parallels.

➢ A tyrannosaurus rex would charge into a herd of grazing herbivores, swinging its massive head furiously in all directions, snapping at everything and hoping for a meal. Failing that, it would begin scanning the horizon for another herd (or consumer segment) at which to charge. (Example: Until recently, one of the large financial services companies in the United States had a stated objective of reaching every creditworthy American with a credit card solicitation four times a year.)

➢ This behemoth would fight bitter and desperate battles with other equally strong competitors over small patches of territory (a facing on a grocery store shelf or a prime-time ad spot) that would often end with no clear victor, leaving both combatants exhausted.

➢ To fight these battles, these giants relied on brawn, not brain, just as consumer goods and services organizations rely on their huge ad budgets and salesforces.

➢ Finally, these predators grew larger and larger until eventually they became too slow and heavy to continue. (Example: One consumer goods client that began the 1980's with 70 marketing professionals found the number had doubled five years later, although sales had grown at only 5 percent a year.)

The prehistoric dinosaurs were extremely successful (after all, they ruled the planet for 150 million years), but eventually disappeared because they found themselves unable to cope with climatic changes beyond their control.

Today's marketers face a similar situation. Before discussing these changes, however, it is necessary to define dinosaur marketing and understand the reasons for its success so far. There are three key characteristics: a belief in and a reliance on the mass market; an emphasis on marketing quantity, not quality; and a decision-making process based on intuition and experience, not facts and analysis.

EVEN WITH "DEMASSIFICATION" MANY MARKETERS PERSIST IN BUILDING MASS-MARKET STRATEGIES

The Mass Market Mistake

First, despite widespread acceptance of the principle of "demassification," in practice many marketing organizations persist in building their strategies to address the mass market. Several years ago, we reviewed dozens of brand plans covering a range of products in the United States, Europe and Australasia. For the most part, the target consumer was a "female, married with children, aged 20 to 45, seeking quality, convenience, taste and value in her purchases." This definition could, roughly speaking, apply to around 50 million people in the United States alone and is so vague as to be useless.

Consider the case of a well-known, nationally advertised children's product. It is also targeted at this 50 million-member "market segment." In reality, careful analysis shows that over half of its sales are to a loyal user group of 50,000 families, not 50 million. Were the company making this product to follow market research from a broad sample, it would find that the mass market believes its product is unhealthy due to its use of colorings and sugar. On the other hand, the core user group is not only unconcerned about these attributes, but in fact likes the sweetness and brightness of the product. Reformulating to meet the needs of the mass market, as "new Coke" did a few years ago, might well destroy the product, alienating those loyal users without gaining new customers. Thinking in terms of market segments instead of consumers can often cover up an underlying ignorance about users and their behavior.

Quantity, Not Quality

Second, most marketing organizations emphasize marketing quantity, not quality. Without a genuine understanding of their users' needs, many companies focus on generating ideas — new products, packages, promotions, slogans, sponsorships — and throwing these into the market to see what succeeds. Just as the real dinosaurs used to produce several eggs, hoping one would survive, so companies produce their own clutch of hatchlings, hoping a few will elude predators and reach brand adulthood.

This lack of focus is demonstrated compellingly by an analysis of new grocery products. In 1994, Marketing Intelligence Service reported that around 8,000 new products were pitched to grocery stores in the United States. Of these, it was estimated that about only 5 percent offered any genuine new benefits in terms of formulation, positioning, packaging or technology. Not surprisingly, very few succeeded.

Intuitive Decision-Making

Finally, dinosaurs base decisions more on intuition and experience than on facts and analysis. Several years ago, in "The Journal of Advertising Research," Steuart Britt, a professor of marketing at Northwestern University, analyzed 135 "successful" advertising campaigns, and found that fewer than 1 percent had any quantifiable objectives. While evaluating advertising effectiveness is particularly difficult, this lack of quantification and reliance on intuitive evaluation is typical of many of the marketing decisions made.

Explaining the Success

This would seem to be a formidable list of shortcomings: the marketers don't know who their customers are; they dash around in a frenzy of activity, much of it wasted; and they have little real basis for their decisions. Nonetheless, like their prehistoric counterparts, not only have they survived, they have thrived.

The reason for this success is that in the traditional marketing environment it has been difficult to do any better. The decisions have been too complex and the data too poor to support anything other than intuition and experiential decision-making. In the credit card business, there are more than 25,000 possible card combinations as well as an almost infinite variety of marketing choices. No one can evaluate or even track all these combinations within the deadlines required for real-world decisions.

To make decision-making even more difficult, most of the available data have been extremely poor. As a result, it has not been possible to isolate cause and effect relationships. In situations where analysis doesn't work, experienced judgment is probably the best decision-making basis available. Thus all the dinosaurs invested in building brand management organizations designed to attract exceptional individuals and then quickly give them as much experience and exposure as possible.

THE I.C.C.E. AGE

Notwithstanding this success, it is unlikely to continue, due primarily to what we have termed the new I.C.C.E. Age, where the components are a complex set of changes occurring in four areas: Information Technology, Consumers, Channels and Employees. (Exhibit 1)

Information Technology

There are three major trends in information technology forcing change. First, the new methods of data collection at point of sale have dramatically increased the availability of timely and accurate data. In particular, the introduction of scanning technology into grocery stores has provided data of extraordinary quality. For the first time, grocery manufacturers and retailers really know who the consumers are and how they purchase. Of course, having data about every purchase made by every consumer can be viewed as a mixed blessing. As one marketing manager said recently, “Using scan data is like trying to drink from a fire hydrant.”

However, the decreasing cost of computing power has made it economically justifiable to track consumers as individuals. Many of the leading consumer goods organizations have already begun identifying customers by name and building marketing programs around this understanding — for example, Nestle’s Club Buitoni in Britain. Finally, academics and consultants have developed a set of analytic techniques that capitalize on these improvements in data availability and computational affordability.

MARKETERS HAVE TO GET THE MESSAGE RIGHT, OTHERWISE IT WILL BE “ZAPPED” IN THE FIRST FIVE SECONDS

Consumers

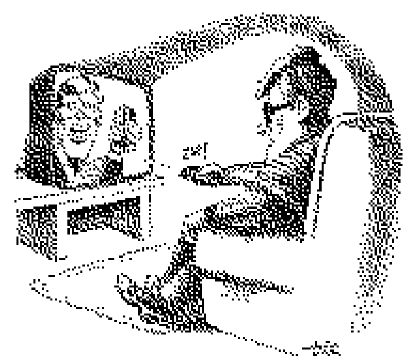
It’s a very good thing that methods to identify and track consumers are improving, because today’s consumers are more elusive than ever and far less brand loyal than their parents.

As a result, marketers must actively sell the consumer on every purchase. But to make that sale, they must first communicate with the consumer, in itself no easy task. The number of cable channels has risen exponentially in the last decade while network TV’s share of the prime time audience has fallen sharply. With all these choices, marketers have to be more right in selecting the medium with which to communicate to the consumer. They must get the message right as well. Otherwise it will be “zapped” in the first five seconds, as the elusive consumer uses the remote control to flip to another channel.

Many will argue that the mass market never existed. For marketers, the focus should not be on the debate as to whether it did, but rather on the realization that it certainly does not today. Kellogg’s has gone from one product, corn flakes, to 89; Revlon offers 150 shades of lipstick, and AT&T more than 69 telephone choices, not counting colors. Consumers increasingly can be identified as members of smaller and smaller groups with very specific needs and buying behaviors, as suggested in the book, “The One to One Future, Building Relationships one Customer at a Time,” by Don Peppers and Martha Rogers, Ph.D. The marketing target is approaching pinpoint size. If the product positioning and message are not dead center, the selling proposition misses, and someone else gets the customer.

Channels

Another factor forcing marketers to change is the increasing strength and sophistication of the sales channel. Channels have come to realize that there is, at the end of the day, only one asset critical to success, a



relationship with the consumer, and they are willing to compete for ownership of that asset.

Retailers have become competitors and are vying with brand manufacturers for customer loyalty. Many retailers now spend more time figuring out how to capture margin from their suppliers than on how to capture market share from other retailers. They do this with money supplied by marketers. As point-of-sale data became available, they invested

Illustration by David Smith

THE BASIC PREMISE, THAT THE BRAND IS THE PRIMARY LEVER FOR MARKETING VALUE CREATION, IS WRONG

in systems that afforded them a superior understanding of consumers and their purchasing patterns. They were then able to push the marketers to allow them greater control over the marketing spending. Between 1985 and 1992, marketing money spent through the channels (trade promotion spending) actually caught up with conventional advertising and consumer spending.

Not surprisingly, retailers have used this spending to build their relationship with consumers, not to support the relationships between consumers and marketers. This deliberate competition by channels is one of the major reasons behind the decline in brand loyalty. Belatedly, marketers have recognized the threat.

Employees

The fourth factor, and one often missed, is the fundamental change occurring in the nature of the relationship between any large organization and its people. Any organizational model that relies on embedded experience needs a high degree of loyalty and a low level of turnover to be successful. But employee loyalty and tenure have diminished. The ubiquity of M.B.A.'s has created a talent pool with more standardized and more sophisticated knowledge and skills. Much of the learning that used to be gained through the apprentice system at Kraft or Unilever is now widely available. Furthermore, employers and employees alike have come to view their relationships as transactional, triggering a marked decline in the loyalty an employee feels toward the employer. Thus there is now a constant flow of experience between companies, often via consulting or advertising agencies. The result is that it is increasingly difficult to institutionalize an experiential advantage. Marketers find it very difficult to build and hold onto a competitive advantage based on human assets, which can and will walk away at any time.

All of these factors — information, channels, consumers and employees — will force dramatic changes in the way marketing companies are organized and marketing decisions are made.

MARKETING REVOLUTION

To term the changes that will occur in the marketing department a revolution may well be hyperbole, and the term evolution may be more appropriate. But it will be an evolution of dramatic proportions. We have begun seeing the first changes. But these are merely the start of a much more fundamental set of changes.

The basic premise, that the brand is the primary lever for marketing value creation, is wrong. We assert that the primary value creation levers are in fact customer relationships, and brands are only a means of serving those relationships. This has a very powerful implication for marketers: their challenge should not be to sell a brand to an ill-defined portfolio of customers, but to sell a well-defined set of customers a portfolio of brands and products. To accomplish this, marketing departments, and the organizations they serve, must change virtually every dimension of how they operate. There will be an end to life on the brand management planet as we know it.

As a start, consumer goods marketing organizations may well

Illustration by David Smith

consider the models emerging in financial services, retailing and consumer services. Their experiences suggest marketing organized around consumer segments, not brands, populated with senior professionals who more closely resemble highly specialized engineers than classically trained young generalists. These are professionals who base decisions on sophisticated analytical models and information databases that track and market to individual customers.

Consider how one company has succeeded. Based in San Francisco, Providian Bancorp, formerly the First Deposit Corporation, is one of the largest, fastest growing and most profitable consumer credit companies in the United States. For four years in a row, "American Banker" has rated the company first or second on its Top 100 Earner's List for banks with assets under $5 billion. Providian has now built up a credit portfolio of more than $5 billion in only 10 years, a success its C.E.O., Shailesh J. Mehta, attributes in large part to a unique approach to marketing.

A traditional brand manager would be lost in Providian's marketing department. The first and most obvious difference would be in the organization structure. There are no brand or product managers to be seen. Instead, marketing is organized into three groups: *Marketing Management, Risk Management* and *Customer Relationships.*

Marketing Management is, functionally, the closest parallel to a traditional brand management organization. Its charter is to identify new customers (end users) and develop new products, although as we will discuss later, the way in which it does this bears little or no resemblance to traditional marketing.

"... NINETY-FIVE PERCENT OF OUR MARKETING DEPARTMENT HAS AN ANALYTICAL BACKGROUND ..."

— SHAILESH J. MEHTA
C.E.O. of Providian Bancorp

Customer Relationships is responsible for maximizing the potential from the existing consumer base. This unit is further split into customer segment managers. Segments are based on customer behavior, not the more common demographic descriptors. "Demographics are not good predictors of buying behavior," Mr. Mehta maintains. "It's possible to have two demographically identical people — same sex, age, income and zip code — with totally different needs and behaviors."

Nor would a traditional executive find many brand managers or even "marketers" in the conventional sense. Rather, Providian says "We don't have marketing types, we have statisticians; 95 percent of our marketing department has an analytical background."

However, as dramatic as these differences are, they do not reveal what may be the greatest difference of all — a profoundly different philosophy about brands, the nature of customer relationships and how to establish those relationships. Providian marketers do not spend their time developing brand plans or meeting with the advertising agency; instead they conduct sophisticated analysis of customer behavior. In fact, unlike many brand managers who pride themselves on their intuitive feel for the market, Providian prides itself on its "state-of-the-art analytical tools" that allow its marketers to track the usage patterns and profitability of each customer, setting pricing and service levels accordingly. For Providian, statistics and information are a vital part of the process to create knowledge-based marketing decisions.

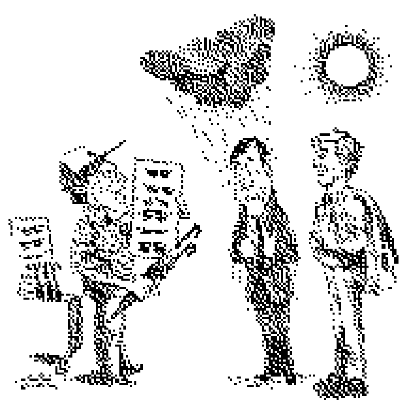
To attract new customers, Providian begins by analyzing its own customers carefully, the logic being that they must have had a reason for choosing Providian in the first place.

The focus is on identifying the behavioral characteristics that distinguish its customers from the market at large. Then it carefully combs the market to find customers who fit these profiles. In the last two years, Providian has expanded its original approach and also offers fee-based products to meet specific customer needs.

New product development (N.P.D.) is one of the key roles assigned to Providian's marketing department. The company offers some of the most innovative products in the industry. However, its N.P.D. process is very different from the classic consumer goods "market-driven" process. In the brand management model, the key premise is that marketing begins the virtuous circle by asking consumers what they need, designing products that meet this need and then developing products accordingly. The process almost always starts with a focus group.

Not at Providian. "Consumers are very rational and thoughtful about what they want in a focus group, but they often behave quite differently," Mr. Mehta believes. For example, credit card users, when surveyed, typically report that they pay off their cards each month. However, the reality is that many card users maintain balances. Providian has prospered and built a sizable business by designing products specifically for these high-usage revolvers. Providian believes the traditional process is useless — in its markets, the customers' stated preferences differ from actual behavior. Even if focus groups were effective, Providian would still be reluctant to use the "market-driven" process. It believes marketers must design products based on latent, unmet needs, anticipating the market. By the time customers are able to articulate a need clearly, it is too late — someone else is already offering them the product. This requires a far more specific understanding of consumers than many marketing organizations possess.

The activities performed by Providian's *Customer Relationships* group have no equivalent in most marketing organizations. The group's major objective is to manage the relationship in such a way as to maximize Providian's share of the individual customer's financial services usage. It accomplishes that task by cross-selling additional products and offering differentiated service and bundled pricing.



IN ESSENCE, PROVIDIAN IS OFFERING A CUSTOMER-DESIGNED PRODUCT FOR EACH OF ITS CUSTOMERS

Just as important as what the Providian marketing department does is what it does not do. One of the most important "don't's" is mass media communication with the customer, a primary role of most brand managers. Traditionally, brand marketers have tried to grow brand volumes by launching major media campaigns. The focus has been on encouraging repurchase among existing users while simultaneously luring new users from competitors. This share-building process is to marketing what driftnetting is to fishing. Its inefficiency and lack of discrimination is legendary, so much so that it has become an industry joke. To Providian, this inefficiency is unacceptable. "Advertising generates a lot of responses, but it often attracts the wrong people, not the customers we want," Mr. Mehta said.

This is a critical philosophy. Providian doesn't want every potential customer. Instead, it carefully selects its customers individually using

Illustration by David Smith

THE NEW MARKETING MANIFESTO

- The basic unit of value in any organization is the relationship with the consumer; brands are simply one component of the overall consumer relationship (albeit the most tangible manifestation)
- There is no such thing as the mass market; customers are individuals
- The relationship between marketers and customers must be based on mutual loyalty
- Marketing needs to view the competitive set through the eyes of the customers
- Innovation must be market-driving, not market-driven
- Marketing decisions should be information intensive, not intuition intensive
- Marketing is a specialized functional resource, not a line business unit

proprietary, and very sophisticated, screening models. Customers are tracked for years before they are solicited. The selected customers are expected to be loyal to Providian. If card usage falls below target levels, Providian will deliberately raise the price, cut service levels or in some cases even actively discourage the customer by offering incentives to reduce the use of Providian's products. In return, Providian is also loyal, focusing only on market segments it understands and is structured to serve.

In essence, Providian is offering a custom-designed product for each of its customers. Mr. Mehta is quick to note that Providian is not anti-brand, but views brands as a means to an end. The objective is to develop the relationships, not the brand.

There is one final difference between Providian and brand management organizations. It has no conventional market research department. Since it knows all of its customers by name and eschews most of the classic market research activities, e.g. focus groups and attitudinal surveys, there is simply no need. Furthermore, Providian's marketers are analytically competent, supported by excellent systems, which they use themselves for customer analysis. They do not need an interpreter between them and the customer base.

It is fair to say that no single company has completely developed a broadly applicable replacement for the brand management model, although some like Providian are very far along. Taken together, their experiences define a different framework for marketing. Our work has identified seven key lessons learned, guidelines that constitute a new marketing manifesto.

A NEW MARKETING MANIFESTO

First, the basic unit of value in any marketing organization is the relationship with the consumer; brands are simply one component of the overall consumer relationship. The single-minded pursuit of brands has led companies away from complete one-to-one relationships as an important marketing objective. In fact, even as new technologies have made direct manufacturer-customer linkages possible, many marketers have "de facto" walked away from relationships with the users of their products. At worst, many organizations now define the retail trade buyer as "the customer," not the consumer.

Second, there is no such thing as the mass market. Customers are individuals, with individual needs. The implication of this is far reaching, suggesting both selectivity and specificity. One possibility, difficult to envisage today, is that the successful marketers of the future will know every customer by name and establish a dialogue with each. At the very least, segmentation will continue to become finer and finer, approaching what one observer has called the segment of one. As the mass market declines, so obviously will mass media, and some of the brand management organizations' primary roles, e.g. interacting with the advertising agency and vetting creative ideas, will atrophy.

Third, the relationship between marketers and customers must be *based on mutual loyalty*. A marketer's time is far better spent seeing to the needs of existing customers than with chasing new ones. The key to growing sustainable, profitable positions shifts toward gaining a greater portion of existing relationships (through either loyalty or cross-selling), and away from establishing new relationships.

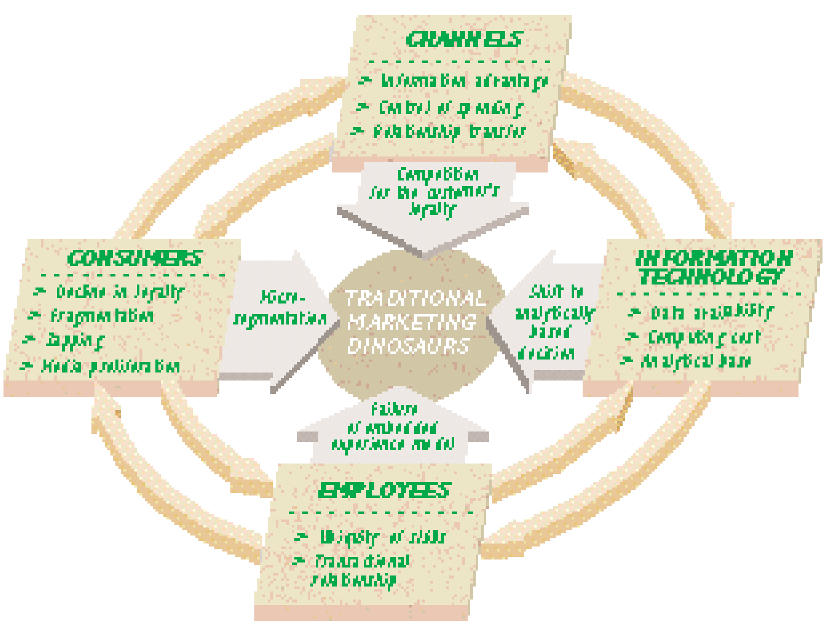
Consider the direct marketing retailer, Lands' End. It concentrates on serving a well-defined set of loyal customers. In 1987, when it began getting calls from existing customers about children's clothes, it started a kid's line. Many of the products in this line and additions to existing products are suggested by customers. The company has expanded into women's business clothes using the same logic. If a customer has a need and Lands' End cannot satisfy it using its brands, it will use other brands, as it does in its linens catalogue. As marketing thought leaders have now recognized, promiscuously chasing new customers through constant price promotion simply encourages disloyalty on the part of all customers.

Fourth, marketers need to view the competitive set through the eyes of their customers. Brand management organizations define competition narrowly — and from a very production-driven mindset. For example, a brand manager for frozen macaroni and cheese entrees religiously tracks his brand share versus other frozen meals. In reality, this product is often eaten by kids coming home from school. Its real competition is more likely dried macaroni and cheese mixes or even combinations of products — such as dried pasta and microwavable cheese sauces. Tracking shares of frozen meals is at least misleading and could lead to the wrong decision.

It is the consumer's prerogative to define competition, not the production department's or the market researcher's. If the consumer chooses between a frozen entree and a granola bar, then that is the competitive reality, however untidy it may be.

Fifth, market innovation must be "market-driving," not "market-driven." Our Tokyo colleague Moto Orihata recently studied 11 leading companies — Sony, Sharp, Toray, Canon, Kao, Fuji Film, Secom, Hamamatsu, Takara Shuzo, CNN and Apple — to understand how they develop markets. Consistently, Mr. Orihata found considerable disillusionment with the market survey as breeding ground for product development. "Ask a market survey expert and he'll almost always say that your product won't sell" (Takashi Kitamura,

EXHIBIT 1: MARKETING DINOSAURS IN THE I.C.C.E. AGE

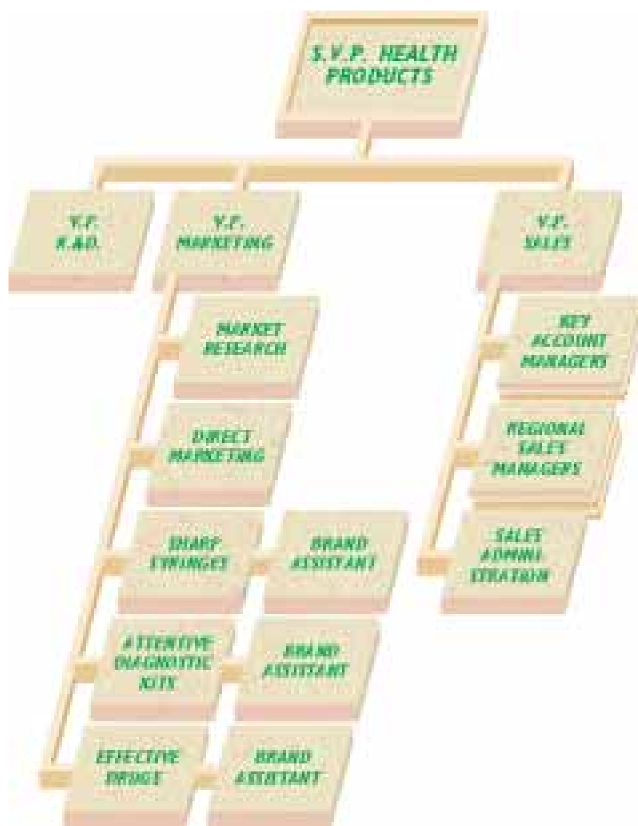


Managing Director, Canon).

In contrast, the C.E.O.'s Mr. Orihata talked to consistently put forward the idea that market needs are not something to be discovered, but to be created. They felt that needs which can be surveyed are usually those everyone knows about. Naturally these companies do not ignore the market — each carefully observes trends and changes in consumer lifestyle. However, they expect their breakthroughs to come from addressing the underlying changes that create new markets, not from off-the-shelf answers to current problems. Market research serves only as a confirmation of their ideas, not the source.

Sixth, marketing decisions should be information intensive, not intuition intensive. Brand management organizations evolved in a simpler era, with fewer, less frequent decisions and limited dependable data. Intuition was key, and information was used as confirmation. Not surprisingly, most brand managers tend to use analysis as "a drunk uses a lamppost, for support, not illumination." (Adapted from Andrew Lang, quoted by Wonnacott.) However, the extraordinary expansion of data capture, the decrease in computing cost and the growing sophistication in handling large data sets are creating an entirely new operating environment for marketers. Moreover, individualized customer relationships require frequent targeted marketing decisions. Decisions must be made quickly and accurately from a base of real-time facts.

EXHIBIT 2: THE "OLD STYLE" BRAND MANAGEMENT STRUCTURE



Seven, marketing is a specialized functional resource, not a line business unit. In the brave new world, where prices and products are customized at the point of contact with the customer, brand managers can no longer *do* marketing, at least not as they have done it before. Marketers must change their role to manage the information flow and create the decision rules to allow marketing initiatives to be launched independently by those closest to the market. Marketers will evolve from "line managers" into highly specialized professionals with the capabilities to handle the essential processes: customer insight, information management, product specification and relationship building.

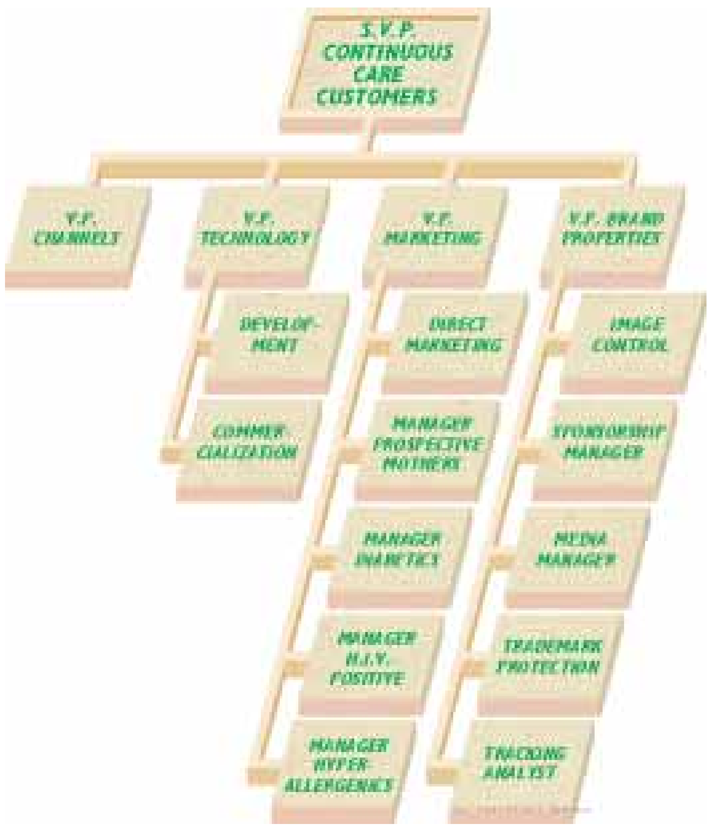
Unfortunately, abstracting lessons from the experiences of extremely successful organizations inevitably results in a list of do's and don't's that have a generic ring to them. The devil, as they say, is in the details. To add tangibility to these observations, it is necessary to frame an alternative to a traditional consumer products brand management organization. For clarity's sake, the organization will be a hypothetical one.

Let us walk through four key elements of this new organization — structure, processes, people and systems. The first and most obvious change would be in the organization structure. Exhibit 2 shows a classic brand management structure for a mythical health product company with three brands: Sharp, Effective and Attentive. The company makes syringes, self-diagnostic kits (pregnancy, allergies, diabetes) and a range of prescription and non-prescription drugs. There are V.P.'s of R.&D., Sales and Marketing. The marketing department includes a number of brand/product managers and several functional units.

Under the new model (Exhibit 3), the structure would change significantly. First, some of the traditional responsibilities of brand managers would move — new product development closer to R.&D. and responsibility for managing the image of the brand to a new group, V.P. Brand Properties. The removal of the lead role for N.P.D. from marketing to technology would make the organization more "market-driving," with technology and consumer insight closely linked. Marketing would still be involved, but much less in managing the process and more in providing information.

The creation of a separate brands group reflects the continued importance of well-established brands as properties, and the need to reinvest appropriately in them; however, it removes the distraction of brands from marketers who should be looking at their customer segment first and foremost. It also allows the development of senior specialist skills to manage critical components of branding, e.g., trademark protection. In addition, the unit would have a tracking analyst — the information specialist who creates and manages the overall flow of market and customer data across the entire organization.

EXHIBIT 3: THE NEW ORGANIZATIONAL STRUCTURE



Second, the former brand group would be reorganized into a segment group, perhaps around four segments — Diabetics, Prospective Mothers, H.I.V.-Positive and Hyper-allergenics. Managers of each of these segments would oversee a customer group. As such they would be responsible for the penetration and sales of a portfolio of products to their customer group. However, these brands may or may not be unique to that customer group. More likely, a different customer manager will oversee a portfolio that has many of the same products and brands as other customer segment managers. The segment managers would not be supported by assistant brand managers but by "marketing engineers," analytically trained specialists who would build and use the models and databases that would form the core of the new organization. Finally, traditional marketing research would disappear.

The people in this organization would be different as well. They would be specialists, not generalists. To build deep understanding, they would remain in their segment of specialty for much of their careers, rather than constantly rotating across the organization. All will be analytically trained and will be at least quantitatively comfortable. In short, there will be fewer, better marketers.

These marketers will spend their time analyzing their segments in depth, developing plans to maximize their total share of the customer's health needs. Rather than creating product and brand plans, they will plan acquisition, customer development and retention. Segment managers would still be involved in new product development and brand development, but in a very different role. As part of a cross-functional team, they may well initiate the process by identifying changes in the lifestyle of their segments and the opportunities that could create, but they would not administer the process as they do today.

Alternatively, the technologist may well chair the new product meeting. Each member of the team

Illustration by David Smith

will solve a specific piece of the puzzle — the technologist proposing a range of solutions, the brand properties specialist advising which brand umbrella fits best, the channel specialist counseling how to get it there. As the product takes shape, the customer segment manager will meet with the direct marketing manager and members of the brand properties team to develop the most efficient and efficacious communication program.

Finally, there will be massive change in the systems that support this organization. The shift from indiscriminate, mass marketing to selective individual marketing will require whole new levels of customer understanding and a much broader review of competition. Systems will move from being useful to essential, and databases on customers, prospects and marketing events will be the core of any large marketing department. It will be an integrated, complex information environment rather than today's piecemeal collections of data and databases. The investment to identify and track customers individually will be substantial, and will be justified by the savings in communications cost (e.g. reduced advertising wastage) and organization size, and by the incremental revenue and profit creation.

Three factors will drive the degree and pace of change. First is information capability. Consumer goods lag behind consumer services and retailing in direct-to-consumer marketing, in part because gathering and processing individual information is so difficult and costly for small purchases dispersed across a wide range of points of sale. Over the long term, the tremendous savings to be created by far smaller marketing departments operating at much higher levels of communication efficiency will justify the investment. Companies such as Providian, Johnson & Johnson, Kimberly-Clark and Kraft have already begun marketing to individuals, not segments.

Second will be distribution. Traditionally, consumer goods companies have had little direct contact with their customers. The entire economics of grocery distribution is built around central distribution points (supermarkets) with enormous economies of scale and scope. It is difficult to envisage how an individual manufacturer could match these economics. However, it would be premature to dismiss it as impossible. Numerous consumer durable and niche grocery product suppliers have already begun developing the direct channel, with Lands' End likely the prototypical success story. Given the increasing connectedness of households to centralized data networks, the breadth of the product lines of many of the major package goods companies and the increasing reach of UPS and Federal Express, it is impossible to be specific about where it might end.

The third factor is the marketing department and the degree to which it can overcome its own inertia. The new model has yet to be embraced by those most challenged by it, today's brand managers. Producing change on this front may be a greater task than the other two. After all, by definition many brand managers are poorly equipped to function in this new way.

It is worth noting that this is one of those problems where it may not be possible to change incrementally. As the old saw goes, "You can't cross a canyon in two leaps." It will be of no use changing the organization until the information capability exists to support it, nor putting in the information capability until there are in place a generation of marketers who can use it, nor hiring these new marketers (or retraining brand managers) until there is an organization that can leverage their skills.

If this view of the future is right, fundamental change is called for.

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