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Get Out of the Silo

by Edward H. Baker

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Marketing expert David Aaker argues that to succeed in today's global arena, marketers must learn to appeal to consumers whose interests transcend individual products and regions.

by Edward H. Baker

Years of corporate decentralization — with individual business units managing regional sales or a small portfolio of products — have allowed flexible organizations to emerge that can keep their collective ears close to markets and customers. But more recently, such silo-based companies are learning that this approach can be counterproductive. This is particularly true in marketing, says David Aaker, vice chairman of the strategy consulting firm Prophet and the author of *Spanning Silos: The New CMO Imperative*. Once easily pigeonholed brands and their marketing programs must now bridge product and country silos, and corporate marketing departments are struggling to create programs that scale these distances and respond efficiently to customer preferences around the world. The downside of siloed marketing schemes — inefficiency, waste, and brands with unclear identities — can no longer be borne, especially as the global economic downturn deepens.

Successful marketing in an era of globalization and the concomitant rise of large, multinational, multiproduct corporations requires that chief marketing officers "become more strategic, more connected to overall business strategy, as opposed to being tactical, the guy who merely generates sales leads or creates advertising or builds Web sites. As soon as you become strategic, you can start tearing down silos," Aaker told *strategy+business* in a recent interview.

S+B: How has marketing changed over the past 20 years?

AAKER: There was a time when marketing departments in decentralized organizations could operate within their product and country silos successfully. Decentralization is a marvelous organizational concept that was first formulated almost a hundred years ago. People working in individual business units were close to their products and technology and to the market, and they were clearly accountable for their results. In short, decentralization made it feasible to manage larger organizations.

But these autonomous silos aren't working anymore. Brands, customers, and media are spanning products and countries now. Whether it's at Citicorp or Hewlett-Packard or Nestlé, brands are spanning silos, and companies that continue to manage products or service brands and marketing programs in individual silos are inviting nothing but confusion. Decentralized silos don't talk to one another because they have no incentive to talk to one another. And they foster a culture in which the incentive is to maximize the performance of the silo rather than that of the organization.

When I go into organizations and talk to top executives about brand and marketing problems, they

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almost always start off by saying, "You know, you've got to understand, our company is different, we're decentralized. And we have a culture that lets these people be autonomous." It's just pervasive.

S+B: Given these changes, how can companies improve their marketing and brand building?

AAKER: First of all, make sure the firm has the capability to develop and implement marketing programs that will scale. You can't manage an Olympic sponsorship, for instance, at the silo level. Second, develop an objective resource allocation process that has the power to fund the products, countries, and programs that have merit and defund those that don't. You can't allocate resources effectively in a decentralized setting because the analysis is so complex and each silo is motivated to maximize resources for itself. Third, find ways to create silo-spanning offerings that are desirable to customers who respond to silo-spanning brands, not individual products. Finally, create a brand management system that ensures brands offer a coherent, consistent vision while still being adaptable enough to support the business strategies of individual silos.

S+B: Can you give me an example of the kinds of problems different companies face?

AAKER: Often, it depends on the sector the company operates in. In the consumer packaged goods industry, resource allocation has been a big problem. A key to the turnaround at Procter & Gamble Company was the ability for company executives to focus resources on the businesses of the future and the really large brands, rather than frittering away resources on small brands.

Many high-tech electronics companies, on the other hand, continue to be bound by their product silos, and struggle to move toward the kinds of silo-spanning, integrated systems solutions customers are looking for. The IBM Corporation story illustrates this dramatically.

When Louis Gerstner arrived at IBM in the early 1990s, he found an entirely product-driven silo culture. It had gotten so bad that executives were considering breaking the company up into seven separate firms. So Gerstner did some dramatic things. He changed the central marketing budget from 10 percent to 50 percent of the total marketing budget. He slashed 70 ad agencies down to one. He started to measure how collaborative the people in the organization were. He changed compensation so that it was driven by employees' contribution to the company as whole, rather than to the individual silo. And he got rid of people who couldn't adjust.

But most importantly he changed the organization from being product-oriented to being customer-oriented. Salespeople had always had the budget to talk about their newest devices. But their customers weren't interested in buying devices, their customers wanted integrated systems solutions. It was a huge disconnect. But after the changes, teams of marketers and sales people started selling all of IBM into a particular customer sector — the service sector, for instance, or government — wherever they were located. All these moves were dramatic and culture-changing.

S+B: What's the biggest risk companies face in dealing with silo problems?

AAKER: This kind of transformation is never easy. To people used to working in silos, a centralized marketing organization is a major cultural change. It's not their mind-set and it's not their incentive structure. Their incentive structure is always based on maximizing the performance of their silos. Diverting resources to corporate marketing means their silos will take a short-term performance hit.

So inevitably, there will be tension and a significant adjustment period. You have to change the incentive structure and change what you measure and what you reward. You've got to start rewarding communication, cooperation, team-building, and team solutions.

If the goal of the centralized marketing team appears to be to centralize and standardize, there is a significant risk of organizational resistance or even rebellion. Such changes can easily be perceived as threatening, and they can destroy what's great about decentralization — vitality, flexibility, accountability, and so on. So the goal should rather be to address silo-driven problems in part through improved communication, trust, and cooperation. Harness those silos and make them work for you by turning them into a source of ideas and a testing lab for the best ideas. Don't just eliminate them. It may be that centralization and standardization will eventually be part of the process, but it should not be the goal.

S+B: How can the risks inherent in radically changing the marketing culture be mitigated?

AAKER: That very much depends on how the CMO, the company's chief marketer, manages the transition. An aggressive change agent who takes authority and flexibility away from silo managers can be a recipe for failure. Instead, his or her task is to recognize that the objective of the transition is to address the problems created by siloed marketing, and not simply to centralize and standardize the marketing function. Given how entrenched these siloed cultures can be, that means he or she must assume a number of nonthreatening roles: facilitator, service provider, consultant. But all these roles must promote what I see as the most important activity of the CMO — to boost communication and cooperation.

Many of the problems caused by siloed marketing are a result of poor communication and a lack of cooperation. If you have strong communication and cooperation, you'll be able to market silo-spanning brands much more clearly and consistently. You'll see opportunities for silo-spanning offerings. You'll be able to share and scale marketing programs. And the organization as a whole will be able to allocate resources much more efficiently.

To that end, the CMO can develop a functional and usable Intranet, arrange cross-silo events, and form silo-spanning teams. He or she can go out and visit the silos to explain strategy and foster communication by gathering and sharing ideas. Without that kind of leadership, no effort to create a truly silo-spanning marketing effort will succeed. +

Resources

David Aaker, *Spanning Silos: The New CMO Imperative* (Harvard Business School Press, 2008): Aaker expands on his argument that CMOs must market across internal corporate boundaries if they want to succeed in a globalized age. www.amazon.com/dp/1422128768

Geoffrey Precourt, ed., *CMO Thought Leaders: The Rise of the Strategic Marketer* (strategy+business Books, 2007): Interviews with top marketers on what customer-centric marketing really means. www.strategy-business.com/cmoreader

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