What Keeps CMOs Up at Night?

Creating High Performance Marketing in High Technology Companies- 2006

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Introduction

What keeps CMOs up at night in this post-bubble economy? What are the key challenges, trends, and issues facing CMOs in their marketing approaches? How do they intend to develop high performance marketing in their organizations? The Hanson Group USA has spoken with a number of CMO leaders in the last several months of 2005, and we have the answers for you. And you may be surprised!

To answer these questions, we spoke to some of the most influential CMOs and Marketing executives in Silicon Valley:

- Bob Concannon, Expert on CMOs and author, Boyden
- Cammie Dunaway, CMO, Yahoo
- Cathy Lyons, CMO, HP
- Cindy Anderson, CMO, Versata
- Denise Peck, Marketing VP, Cisco
- Gloria Kreitman, Marketing VP, Cadence
- Google (anonymous)
- Janice Chafin, CMO, Symantec
- Melissa Dyrdahl, CMO, Adobe
- Patrick Tickle, CMO, ITM Software
- Sue Barsamian, VP Marketing, Mercury Interactive
- Tom Buiocchi, VP Marketing and Support, Brocade

Executive Summary

What keeps CMOs up at night? There are four external trends that are creating fear and anxiety for our CMOs because they will change and disrupt high tech marketing: **Software As a Service; the Merging of Software, Entertainment, Mobile Devices and PCs; Competition from Lurking Gorillas; and Industry Consolidation**.

These external forces are combined with enormous organizational challenges for our CMOs:

- Bring Strategy Back into Marketing
- Increase Marketing Measurement and Accountability
- Develop Tighter Alignment with Business Units, Sales, R & D and Product Management
- Target and Serve Customer Segments More Effectively
- Centralize the Marketing Function
- Create and Execute More Effective Web Marketing

What Keeps CMOS Up At Night: External Forces of Change

When asked about their key concerns for the future, our interviewees identified four major trends and forces of change and disruption:

- **Software as a Service As a Disrupting Force:** CMOs are watching carefully the transformation of the software industry from packaged software dominating the landscape to software as a service (also called on-demand software). This transformation has implications for CMOs in their own pricing models, sales channels, user interface, and other very broad and serious potential for disrupting their current models of success.

  "I recognize that our traditional software model is under tremendous pressure from those who have On Demand software and who charge only for advertising and not for the software itself—or who charge in micro-increments rather than in a lump sum."

- **The Merging of Software, Entertainment, Mobile Devices and PCs:** The convergence of media (search merging with entertainment, entertainment with mobile messaging, etc) is forcing a new complexity of platforms and product offerings. As one CMO noted:

  "There is no playbook for the new world where all capabilities are supposed to be on all types of devices, and they are supposed to be interoperable. We have to invent it, and it needs to be right."

- **Competition from a Lurking New Gorilla:** Not too surprisingly, several CMOs noted that their market areas had been invaded in the last couple of years by large, and sometimes very effective, gorilla competitors.

  "The gorilla entered our market a couple of years ago, and at first was not too effective. But after a while they learned how to sell their product, and our market share has suffered. We need to stop this downward trend."

- **Industry Consolidation and M&A challenges:** Many companies, particularly in software, have had large challenges in effectively integrating acquisitions—especially those which are large and therefore have a major impact on the future of the business. Integration of people, brands, products, partnerships and many other issues take years to execute and they have to be done extremely well for the acquisition to be justified.

  > *"We are still in the process of merging, and it will be at least a year before the products are fully integrated and probably longer before the cultures have aligned. The jury is out until you have taken advantage of the assets of both parties and have a compelling, new value proposition for your customers."*

What Keeps CMOs Up at Night: Organizational Challenges to Change Focus, Behavior and Priorities

These four external factors are driving a wide variety of challenges for CMOs in the way their departments interact with other corporate stakeholders and how they develop their own teams. There are six key challenges that CMOs have to face in building and aligning their organizations before they get some sleep.

Challenge #1: Bring "Strategic"Back into Marketing

Marketing in many high tech start-ups and early stage companies has been extremely tactical—lead generation, putting out press releases, helping the sales team. Although some of the larger companies have had more strategic functions, especially in product management (product and customer segmentation), this was more the exception than the rule.

But this is changing rapidly, and partially because the CMOs are often now people who have run P & Ls and who thus have a very tight focus on *running a business and being profitable.*

> *"It was hard to convince me to take on this role. I liked running a P&L. But everything really comes down to marketing…I am concerned with how to increase margins, how to build the brand, how to link my goals to the business goals."*

Challenge #2: Increase Marketing Measurement and Accountability

CMOs and executive boards are asking tough questions of their functions:

> *"How is this marketing dollar/campaign contributing to the growth of the business? Where's the ROI? If there is no ROI (e.g., celebrity marketing), can it be justified on other terms? If not, we shouldn't do it."*

Most of the interviewees noted that there is a heavy focus on both more and better analytics of customers, products and markets; and that measurement systems to track the impact of their marketing were either being put in place or had already been put in place, In short, *Marketing as a Science* is at the forefront of marketing these days.

CMOs spoke about getting more and better information and better analytical tools to allow them to understand customers, markets, geographies and products better. These analytical tools come from traditional ERP systems, from business analytics tools and business intelligence software, and from home-grown tools. They allow the marketing team to ask and answer more specific questions more quickly and efficiently, and to guide their businesses more than ever before.

Challenge #3: Develop Tighter Alignment with Business Units, Sales, R & D, and Product Management

This alignment of the key functional areas, as well as business units, has historically been tough; sales and marketing have often been at odds in high tech companies, or at least moving in very different directions. But *cost pressures and accountability pressures have driven sales and marketing together* in many of these companies.

> *"I have to work closely with sales, because if I don't we cannot track how successful our marketing campaigns have been. The field needs to know what happened to those leads and let us know."*

As resources continue to be constrained and accountability pressures increase, it is critical to structure marketing organizations to execute effectively through their matrixed role in their complex organizations.

Challenge #4: Target and Serve Customer Segments More Effectively

CMOs are increasingly feeling the pressure to look at customer segmentation and to tailor campaigns to specific customer targets, while measuring the results. Several CMOs mentioned moving from market-centric marketing to customer-centric marketing as a major shift in their thinking and acting.

> *"We need to look at each specific customer segment and tailor our campaigns to that segment. Different types of customers need different things."*

> *"We have to drive the focus back to the customer segments for all of the functions—sales, marketing, product marketing—so that we solve the customer's problems through all forms of product, positioning, training, and so on."*

In several cases, as they move from large enterprises as the prime customer focus to middle-sized or small customers, the CMOs are looking to a very different type of lead generation, new channels and new campaigns. A number of companies mentioned that they were going to target specific vertical segments as a way of simplifying and focusing their marketing efforts.

Challenge #5: Centralize the Marketing Function to Deliver Consistent, Strategic Communication and Service

Most (but not all) of the CMOs with whom we spoke are moving their marketing toward a more centralized model.

"We are concentrating on sending a few, key, consistent messages across the organization and to our customers. We are actually quite good at this…consistency of story from beginning to end, in every forum whether it is PR, advertising, marketing communications, or the web."

Part of the goal of centralizing marketing is to achieve a better, tighter brand focus.

"Building the brand and making the brand strategic is always on my mind."

Almost everyone measures the company brand strength using outside resources like Interbrand. In a number of cases, measuring brand both as a customer asset and a financial asset is also underway. "*Using employees as brand ambassadors"* was an explicit goal for one of the companies. Some companies still support multiple brands ("house of brands"), but most are trying to focus on one company brand ("branded house") as the lead and major focus.

"We're definitely a 'Branded House' and everything supports that one big brand."

Brand building is especially complex where a company has multiple "brand identities" for different customer segments. How does one balance the brand for the consumer vs. the brand for the enterprise? And where companies are attempting to enter new markets, they have to adjust the brand image for that market without losing its central identity.

"The crowding of brands and the cross funding of other brands ("I pay you and you pay me") is leading to both confusion of the customer and diffusion of each separate brand. There's no easy answer."

Several CMOs also mentioned the difficulty of dealing with the brands of acquired companies. In the cases where the purchase was small, the decision is an easier one---use the brand of the acquirer. But in cases where there is significant brand equity in the acquiree, and that new customer base is different from that of the acquirer, then companies might retain the old brand for quite a time or even for good. Then they have a "house of brands" and need to manage different types of brands for different customers and markets.

Challenge #6: Create and Execute More Effective Web Marketing

Even those companies that have a substantial web presence (web site, webinars, web marketing and web loyalty programs) believe that the state of the art in web marketing is changing rapidly. Understandably, the web search companies seem to have the most data and the most sophisticated tracking for web success. But several VPs mentioned that they felt they were behind in this area. It's creating 2 am wake up calls.

"We need to get better in the web area—both for lead generation and brand building. We have to get better web metrics. We aren't there yet."

Objectives for 2006: How to Create High Performance Marketing

1) Align Marketing With Other Organizations

In the past, CMOs report, the marketing initiatives might have been well constructed, but were often not carried out in the field or in different channels and geographies and thus did not achieve optimal results. Today, with an emphasis on cost savings, CMOs have to make sure that all the functional groups are moving in the same direction. They have to be responsive to and strategically leverage the work in all other parts of the organization.

> *"I work very closely with sales. X and I are on the same page, and we drive that down through our organizations."*

In one company, the Marketing VP is also the Service VP and controls all of training and education of the customers. In several companies, product management is in marketing and closely aligned with the engineering groups.

> *"It's our job to gather customer feedback to the products and to make sure that the engineering group participates in that and then produces improvements in the next products."*

2) Increase Cross-Selling across Business Units, Brands and Partnerships

The CMOs are very concerned that they learn to promote and understand and measure the cross-selling of their products, brands and partnerships. This is probably the least understood area—or the area in which most companies are the least far along in solving—but it is one that many of these companies are tracking and trying to build competencies.

First***, cross-selling across business units***: how does one get the maximum value from a customer who might be a candidate for multiple purchase but currently is a customer for only one of a company's business units? How do they increase the number of customers buying from multiple business units?

"The key to long term success is to get the customer to buy from different business units and properties: we want to build the lifetime value of a customer. If we can get them to move from purchasing one product to multiple products, we significantly increase that lifetime value."

In most cases, cross selling across businesses is an unsolved or partially-solved problem and much more needs to be done.

Next***, cross-selling across brands*** is often extremely difficult, and a number of the companies have multiple product brands that they need to support. The tension between one "king brand" and maintaining multiple brands is often problematic. This is especially true when there is an acquisition of another company with a previously established brand. Even Cisco, historically a House Brand rather than a House of Brands, has recently purchased two companies with their own strong brands—Scientific Atlanta and Linksys. While the easiest solution may be to re-brand the acquisition quickly, that is not always possible.

> *"If the acquired company has already established a strong brand, then changing the brand is in fact giving up brand equity and potential sales; if the acquisition has an earn-out clause, then the acquired company has a financial incentive to fight re-branding; and if the old brand is associated with a different customer group, losing the old brand might also decrease sales to that specific customer group."*

Finally, ***cross-selling across company partners***: *partnerships with other companies* are often formed with one business unit but could benefit another business unit—and the network effect of those partnerships could readily enhance the value of each business unit as well as the company as a whole. But oftentimes, in the current environment, this is not occurring.

3) Develop More Competency in "Marketing as a Science"

Most of the interviewees noted that in 2006, they will build a more complete and focused marketing measurement system. Most of the companies have marketing measurement systems to track some or all of the following:

- customer satisfaction, retention, loyalty and advocacy
- brand awareness, perception and brand strength (usually third party measurement system)
- customer experience and "engagement value" in retail and web site venues
- lead generation and sales from leads (closed loop tracking from events and other campaigns)
- campaign awareness and success (conversion to sales)
- employee retention
- ad awareness, inquiries and success
- PR success (# of articles, column inches, tone, coverage in elite magazines, effectiveness of message, etc.)
- Market share by customer segment
- Market analyst reviews/endorsement

Almost everyone raised the importance of **customer loyalty and advocacy as a key benchmark** that they were tracking and needed to understand even better in the future. This customer loyalty included such sub metrics as whether the customer would recommend the product/company to a friend and also should lead to a closed-loop analysis of how much a customer would buy (the link between customer loyalty and customer profitability.) Others talked of building a Customer Loyalty Club, with specific benefits going to the customers (like a AAA or airline club.)

Customer satisfaction and deep understanding of their product use is also fed back into product management in many companies. The smaller companies seem to have a tighter link between customer feedback and product development, since in those cases product management is under marketing.

Almost every company measures **brand awareness and strength**. Most of them use an outside third party to do the measurement. As mentioned earlier, the brand tracking is also becoming more sophisticated for some—leading to brand equity (financial) measures and multiple brand (sub-brand) measures.

Customer experience and engagement management was mentioned by most of the companies, particularly those with large portions of their business on the web. Tracking measures such as time spent on site, page views, and moving from one part of the site to another are all used as common metrics of web success.

Lead generation and conversion through the pipeline to sales are closely watched metrics for all of the companies. Some have a fully "closed loop" system, but many have to work to pull multiple pieces of data to fully understand the picture. Lead generation data from separate marketing campaigns, events and webinars are still often in separate tracking systems.

T**racking marketing campaigns as a whole** (including PR, leads, sales, ad awareness, etc. all together as a result of a campaign) is a challenge to many companies. Traditionally, each function (e.g., PR vs. advertising) has tracked their results separately. But as the campaigns get larger and cross sub-functional boundaries, the more challenging and crucial measure becomes the success of the campaign as a whole entity on the company.

Employee retention in the marketing arena was a closely watched metric by many CMOs. This issue was tied to an increasing emphasis on marketing training and professional development of the marketing function. **Advertising awareness and success** and **PR tracking** were also considered important metrics. However, these tracking systems were already perceived as in place and functioning well rather than areas of challenge. Furthermore, both advertising agencies and PR agencies that serve these companies usually have sophisticated tracking systems and view it as their jobs to track the effectiveness of their advertising and PR—so that the burden of metrics is really more on third parties than the companies.

Market share by customer segment, a traditional metric of classic marketing, was mentioned by only two companies. This may be because it is second nature. And more companies mentioned they were tracking their key customer segments and their growth if not explicitly their market share by segment.

Finally, a number of companies mentioned the **growing market place clout of marketing research and analyst firms** such as Gartner, IDC and Forester. Some viewed this as a necessary but high cost of doing business (buy their research and go to their events) which would yield better placement in the market research reports. Others viewed it as an opportunity to be a thought leader working hand in hand with the market research firms. But everyone tracked how well they were doing by these firms' metrics.

This is undoubtedly not a full list of the metrics tracked by large companies and their CMOs. But it represents what was foremost on their minds, and what they are trying to improve. Many of these CMOs mentioned that they need to have better IT support and tracking. Some of the companies use a full Marketing Resource Management (MRM) package such as the one from Siebel Systems that measures planning, process and results in a large and complex package. Other companies preferred to have different measurement tracking systems for different metrics (e.g., Interbrand research for the brand metrics, another company for Customer Loyalty metrics, and so on.)

Most companies have already installed (or have in the works) a Marketing Dashboard which displays real-time and time-series key marketing data all in one place so that the CMO, CEO and others on the C-staff can view and use the data in decision making. Marketing is no longer a seat-of-the-pants function in high technology, but a science.

In fact, one of the more challenging issues seems to be how to select and pay attention to the *right data* from the mounds of data that each marketing group has. One company had reduced its key marketing metrics from 60 down to 23 in order to give more priority to the key metrics.

4) Focus the Marketing Team and Enhance "Marketing as a Craft"

As marketing executives, most are very concerned with building a team that is both global and cross-functional. As teams get bigger and marketing's scope larger, it often becomes harder for the VPs and CMOs to direct the day-to-day operations and they must leave this to their reports.

> *"The biggest thing for me is keeping the team staffed with the right people. Am I building the right team? Are the A players in the boat, and are they all paddling? Are they motivated and feeling rewarded?"*

In the early days of Silicon Valley (the 80s), marketing was a function where engineers were routed to increase support and effectiveness of sales teams. In the 90s, marketing in the Valley grew into a place where communications were king: how to tell a story, how to build a brand, how to support customers with white papers and success stories. In those days, marketing was *not a craft* and building marketing competence and teamwork consisted of getting better at the specific sub-part of marketing in which one participated (PR, marketing communications, sales support, product marketing, etc.)

But in 2005 and looking forward to 2006, the CMOs and VPs of the Valley are distinctly focused on "marketing as craft" and "building the skills and competence of the team" across multiple areas.

> *"The bubble which burst in the early 2000s has put marketing in the position of having to prove its value and having to be accountable for what it produces, just as engineers are accountable for getting a product out the door. We have to show our ROI—overall and on specific campaigns."*

As most companies focus on the science of marketing, there is some concern that Marketing as Art will be lost. One CMO had already reached this point, and noted:

> *"The real challenge in the future will be to balance Marketing as a Science and Marketing as an Art. Once you get the science part right, it is clear that you still have to have the part of marketing that is Art—driven by imagination, creativity and emotion. This is the issue that keeps me up at night."*

Another CMO referred to this by having as a specific goal to *"expect innovation in marketing, and reward it."* A third CMO noted that a new Marketing Communication VP had just been hired to make sure that they keep up their marketing innovation and not just rely on "blocking and tackling." So CMOs have the desire to keep the innovation and creativity of marketing as they move toward Marketing as a Science.

Many of the interviewees referred to building the "craft" of marketing—the skill base of the individuals and of the whole marketing team. They recognize that marketing has a distinct importance in the company, and that leaders must both develop people in specific ways but also develop a career path for them.

> *"Doing marketing well requires having skills and talents. It doesn't just happen. People have to be groomed. In many ways, we're the glue and the communication link across the functions, and we have to make sure that we're all on the same page of the same book."*

Conclusions and Action

CMOs clearly have a lot of issues to keep them awake at night. Most have two or three burning issues that will drive their focus in 2006. If you are a CMO or VP of Marketing in high technology, the forces of the market and your own organizations obviously give you plenty to do. Whether it is meeting the force of external changes and pressures or aligning your organization to these needs, *the Hanson Group can help you*. **Call us at 650-948-3746 or write to Kathryn@hansongroupusa.com.**

Survey Methodology
Interviewer: Kathryn S. Hanson, Managing Partner, The Hanson Group
Interview Timing: November-December 2005
Format: In-person or phone interviews, ranging from 30-70 minutes.
Questions: We started with a set of 15 questions, but the discussions were very rich and broad. We let the CMOs take the lead, and with much probing and follow up, we really got to the heart of the matter for each of them.

The Hanson Group specializes in developing company strategy and market strategy for high technology and health care firms; in helping leaders grow a profitable business through new products or new markets or via acquisition; and in strategic business development and planning.

We focus on customer acquisition and customer loyalty, on market size, growth and evolution, and on the product's innovation and defensibility against key competitors or substitutes.

The Hanson Group's consultants have experience in world renowned consulting firms, but also have real world operating knowledge. Clients have included entrepreneurial firms such as Verity, SatMetrix, Netlabs and Creative Labs; and large innovative firms such as HP, Sun, SGI, Quantum and National Semiconductor.

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