

American Marketing Association -Toronto Chapter

Roundtable, October 5th, 2006

INNOVATION: HOW IS THE MARKETING DEPARTMENT DOING?

Introduction:

On October 5, 2006, the AMA assembled a cross-section of marketing industry leaders (see last page) to discuss the return and rising importance of **Innovation** in marketing. They spoke about how this represents a change from incremental strategies, and made suggestions about what marketers can do to contribute to the change, and how they might set about it.

Using a Roundtable discussion format, participants covered a wide range of topics, most of which are summarized in this document. The content of their discussion about the process of innovation and what it entails has been broken down into the following key categories:

1. Organizations will need to reshape themselves around their customers
2. Marketing must reshape its role externally
3. Marketing must collaborate and communicate internally

Each category represents a general issue/problem. A set of standardized sub-headings has been organized around each category, to reflect how participants explored each issue/ problem in greater depth. They outline why industry leaders consider that solving the problem is important, and they record overall themes and key insights emerging from these themes. Finally, this report looks at how the audience considered the wider role of the Marketing department in next few the years, and suggests some topics arising from these insights that that would merit further discussion or debate.

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| <ol style="list-style-type: none">1. To be innovative, organizations have to reshape themselves around their customers. They must become customer-centric rather than product-centric. |
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WHY MAKING PROGRESS ON THIS ISSUE IS IMPORTANT

Due largely to the increasing impact of technology, the customer now has the power to demand brand, product and service change. This is the ascending power of the active customer rather than the passive consumer of the past, and it is expected to increase. The organization and Marketing needs to be partnered with this new, empowered customer.

a) The Ascending Power of the Customer

The general consensus in this discussion segment was that the empowered customer is now a reality. B2B companies learned some time ago to co-create improved or new goods & services with their customers. This is now emerging in the B2C model.

Overall Themes:

- ≠ Power is shifting from the manufacturer to an organization supporting the customer.
- ≠ Customer/manufacturer co-creation of goods & services is the way of the future.
- ≠ Focus has to go to the 'whole customer experience' of the brand, product or service.

Key Insights

- ≈ We are about to move into an era in which customers will custom-make some their own goods and services.
- ≈ In effect, the customer is becoming the brand.
- ≈ Marketing has historically owned the customer and the brand, but is now losing credibility and often being perceived as an expense, rather than an investment.

b) Where and how does Innovation start?

The general consensus in this discussion segment was that innovation used to start with the manufacturer. Now innovation is starting with the customer, and innovative organizations realize this.

Overall Themes:

- ≈ Because innovation starts with the customer (rather than with the manufacturer or channel) all useful and profitable customer knowledge should be integrated and acted upon.
- ≈ A focus on quarterly results rather than long-term growth should not derail innovation strategies.
- ≈ Innovation must be quantifiable, affordable, executable and profitable.
- ≈ Marketing is now lagging behind in innovation, compared with manufacturing etc.
- ≈ Marketers can look beyond the 80% central hump in their customer segmentation bell curves to find leading-edge innovations with wider applicability – providing these innovations are executed successfully.

Key Insights:

- ≈ Big-organization silos do not normally generate innovative strategies.
- ≈ Crisis often drives innovation - often when least affordable.
- ≈ Selective innovation can 'de-risk' innovative strategies.
- ≈ Look at the ends of the bell curve (not just the middle) and find needed, profitable innovations.
- ≈ For innovation, organizations need more generalist 'right-brain' creative thinkers. This will require a top-down corporate cultural change.

c) What do we need to do to our organizations to become more innovative?

The consensus in this discussion segment was that one way for an organization to become innovative was to restructure itself around the customer. *Starbucks* was considered to be a leader in this area: its business is totally based on the whole customer experience, rather than just the product. For many organizations, this represents a complete attitudinal change, and marketers must help them work towards it.

Overall Themes:

- ≈ Change around the customer needs to be recognized.
- ≈ Canada is good at innovation but poor in the execution of it. The process needs reviewing to ensure profitability in the future.
- ≈ Whereas small organizations innovate (if affordable), big companies tend to respond. This should change.

Key Insights:

- ≈ Only 15% of CEOs today are from a Marketing/Sales background, most are from Manufacturing operations or Finance. To them, innovation is risky and they are not risk-takers. Rather, they are risk-averse, and prefer to focus on incremental growth strategies, rather than growth from innovation.
- ≈ Marketers can help promote, develop and support a culture of innovation at the top.

d) What will these future organizations be like?

The organization of the future has to be more fluid and adaptable. Owning the customer will be far more important than owning the product or manufacturing base. Organizations will need to develop not only co-operative networks with their customers (to get inside their customers' mindsets) and develop a 360-degree 'surround the customer' strategy. They should also ensure that innovation is the most important management growth tool in the organizational process - Manufacturing, Distribution, Sales, Marketing, R&D (New Product Development) etc.

Overall themes:

- ≈ Owning the customer will be of greater importance than owning the product.
- ≈ Fluidity and adaptability will be the key to ongoing success, together with the ability to deal with an increasing speed of change.
- ≈ Constant feedback will be provided by co-operative two-way communication.

Key Insights:

- ≈ Distribution channels are now more important: retailers/channels can now own the customer.
- ≈ Organizations that supply brands/products/services themselves must make their systems easy for their customers to use. They must make the customer experience easier and better.
- ≈ Organizations that use distribution channels must ensure that the channel is well-supported by co-operation, not quasi-competition (e.g. CPG and grocery chains' house brands situation)
- ≈ Companies must keep analysts and stockholders happy. They should also set up innovation incubators for development, and focus on long-term growth rather than short-term profits.

2. To be innovative, Marketing must reshape its role externally from the current classic mass-media external communicator model, to one that focuses on the customers. The new model must incorporate a thorough understanding of customers, based on their differing segments, wants, needs and desires. It must initiate and maintain a continuing two-way communication with them, continually building trust. Marketing, together with the organization, must work with these customers on an on-going basis to build strong customer/manufacturing communities.

WHY MAKING PROGRESS ON THIS ISSUE IS IMPORTANT

We are now dealing with empowered customers rather than passive consumers. Thus the demand side of the equation will become far more important than the supply (product) side. Organizations should therefore re-define what business they're in: for instance, soft drinks are in the thirst-

quenching business, not the Cola business. The marketplace will become a venue where the most adaptable prosper. Marketing must redefine its role to communicate with this changing customer.

a) The Future Power of the Customer

The consensus in this discussion segment was that if demand is becoming more important than supply more customers will expect more innovative products that fit their needs. If marketers are to take some responsibility for innovation, they should first help the organization to restructure itself around the customer.

Overall Themes:

- ≈ We need to think of customers not 'consumers' Active two-way relationships are the key to the future
- ≈ The question, 'what business are we really in?' will become more important than ever. We will be able to converse with our customers to find out what they really want, and produce new or improved products to fill their needs.

Key Insights:

- ≈ Customers are whole human beings, and not simply 'Target Groups'.
- ≈ Marketing must communicate with these changing customers.
- ≈ We must drill down to the core of the customer value equation in key groups.

b) How will Marketing define its new role? What will it be?

The general consensus in this discussion segment was that Marketing needs a new role. It should become the bridge between the whole organization and the customer. It should also act as coach to the other departments/divisions to help influence the whole organization to become customer-centric. And in addition, Marketing should again own a key role in corporate strategy.

Overall Themes:

- ≈ Marketing's role should be that of specialists in 'the customer.'
- ≈ Marketing can lead and supply the innovation that organizations need to compete and grow.

Key Insights:

- ≈ Marketing used to be involved in corporate strategy. This is no longer the case. Marketing's key role should be not only to supply the strategy, but to make sure that innovation is part of the strategic plan.
- ≈ The customer contact front lines will become far more empowered in large organizations. This will require a major upgrade in sales force and call-centre customer knowledge; more organizational and product knowledge/service information; and strong communication techniques.
- ≈ 'Customer-centricity' will be achieved when marketing is empowered to help other divisions bridge the gap between the old product-focus and the new customer-focus. By using its communication skills to build bridges, Marketing will be able help departments and divisions within the organization to understand the customer. In this way the whole organization will become totally customer-focused.

3. Marketing must collaborate and communicate internally as well as externally in their own changing organizations. Marketing has to become the Customer Department rather than the traditional Marketing Department. It will be their task to understand the customers' wants, needs and desires, and to explain these things to the CEO, C-level management, and all other divisions or departments to produce a truly customer-centric experience.

WHY MAKING PROGRESS ON THIS ISSUE IS IMPORTANT

Marketing is expert at communicating. However, it now seems that Marketing has been focused on external communication, with the result that it has not been communicating well internally – either at top management level or at any other levels in the organization. Marketing should be the group most prepared to help with change. It must be the most ready to embrace and capitalize upon innovation, and liaise with all other areas of the organization, explaining what customer focus really means, and how this innovation will benefit everyone.

a) How will Marketing help with innovation, integration and collaboration with the rest of the organization?

The consensus in this discussion was that Marketing has the skills within the organization to communicate and achieve innovation, to deal with change, and to explain the importance of these elements to all levels and areas of the organization. In this way, they can create a truly customer-centric organization.

Overall themes:

- ≈ Becoming a customer-centric organization may involve some structural changes from the top down.
- ≈ The CEO should be recruited as Chief Change (Innovation) Officer.

Key Insights:

- ≈ A Chief Customer Officer from the Marketing department should be appointed as key liaison to all divisions and departments throughout the organization.
- ≈ For innovation to happen right across the organization, individual innovation leaders should be recruited from all areas.
- ≈ Marketing should initiate the development of cross-functional teams to execute innovation.

b) How will Marketing provide leadership in the new organization?

The consensus in this discussion was that Marketing should develop more of a Customer Research & Development role to find out more about the whole customer need. They should then communicate their enhanced customer understanding to all divisions within the organization. This should result in a 360 degree organization (i.e. no silos) with all the divisions not only focused towards the customers, but also organized around them and the whole customer experience.

Overall themes:

- ≈ The role of Marketing in achieving better customer understanding.
- ≈ Many companies are 'just getting the product out', and too busy meeting objectives to focus on their changing customers. This is counter-productive, so it's up to Marketing to help their organizations refocus.

Key Insights:

- ⌘ Marketing must become the Customer Knowledge Centre, and develop a greater understanding of what is needed to build a better customer experience.
- ⌘ The customer should be involved in all ongoing discussions.
- ⌘ Marketing must find innovative ideas to solve problems – and to justify the budget.

MARKETING AND THE FUTURE

The audience was then invited to make some predictions about how Marketing might be functioning in four years' time. These are some of the ideas they came up with:

- ⌘ In four-five years, Marketing will have influenced many changes in thinking on all levels: externally to the customer, internally to the C-Level, and in all divisions and departments within the organization.
- ⌘ Marketing will have a seat at the 'C-level Table' and be a key contributor to the Strategic Plan.
- ⌘ Marketing will have become the corporate coach for all customer communication, and will have helped bring about a marked improvement in all operations management.
- ⌘ Marketing budgets will be regarded as an investment, not an expenditure.
- ⌘ Marketing will have found true customer insights, using technology to evaluate massive data inputs.
- ⌘ Marketing will be showing knowledge leadership across all areas of the organization.
- ⌘ Marketing will be helping to maintain competitive adaptability in the face of increasingly fast change.

It was also stated that Marketing will be a key element in the customer-centric approach. The corporate Vision, Mission & Values statements will reflect this from the top down, with the CEO being part of the whole process. And it will be part of Marketing's job to convince the organization that this is the way to gain competitive advantage in the future.

TOPICS FOR FURTHER DISCUSSION

Finally, the panelists suggested some of the first steps Marketing might go about reaching for the envisioned future. Here are some of the ideas they came up with:

- ⌘ Marketing must lay claim to innovation by finding innovation pioneers in other divisions, and recruiting them into pilot projects.
- ⌘ Marketing should lead cross-functional innovation teams across the organization.
- ⌘ Marketing must find an affordable innovation for a key customer group that is profitable, then develop an affordable strategic plan and execute it to demonstrate that innovation is the key to future growth and profitability.
- ⌘ Marketing should ensure that the customer's 'face', voice and behaviour are clearly projected throughout the organization, so that the customer-centric initiative is embedded in the organizational consciousness.

As one panelist said *'When, where and how the Marketing Department will execute these changes is perhaps the most exciting innovation challenge of all'*. Yet another said *'if Marketing does not seize the whole strategy-setting initiative and innovation then, Marketing as we know it will be dead. It will become only an executor of other divisions' strategies, not the strategy-setter.*

Our thanks go to our panelists (and the audience) for their contribution:.

Round Table Participants:

Daryl Aitken

Strategic Consultant

David Ceolin

President, Digital Cement

Richard McLaughlin

President, McLaughlin & Associates, Chair of the Board of Directors, Canadian Marketing Association

Dr. Alan C. Middleton

Executive Director, Schulich Executive Education Centre, York University

Rob Shields

Vice-President, Partnerships, Aeroplan

Moderator: Alan Kay

Principal, The Glasgow Group

Sponsored by: The Glasgow Group

Report written by: Kevin Meade

The **AMA Toronto Chapter** is a not-for-profit association founded in 1937. The AMA is the world's largest and most comprehensive professional society of marketers, comprising 50,000 members in 92 countries and 500 chapters. Website: info@ama-toronto.com

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The Glasgow Group The Glasgow Group is a change management consultant in corporate strategy, customer focus, and enterprise brand strategy and implementation. Focused on speeding up strategic and human change using existing resources, the work is widely influenced by Solution Focus.
Tel: (416) 481-3588 www.glasgrp.com