CMO Pessimism Waning

Marketers are replacing pessimism with determination, CMO survey finds.

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TOP MARKETING OFFICERS are trying new growth and spending approaches in today's recessionary economy. In addition, they are challenging themselves to find new methods of building customer relationships, pursuing product development and innovation, and working to improve their internal knowledge. Those are among the key findings of the February 2009 CMO Survey.

The latest survey finds that the pessimism seen in the August 2008 CMO survey is being replaced with determination. The focus has shifted to searching for opportunities to adapt to evolving consumer and competitive environments.

The CMO Survey is a co-sponsored project of the American Marketing Association and The Fuqua School of Business - Duke University. It is designed to tap into what chief marketing officers know and expect. While currently focused in the United States, the survey will be expanded to include European CMOs beginning in 2010 and Asian CMOs in 2011.

The latest survey was administered to a sample of 3,932 top marketers between Feb. 4 and Feb. 13. It received a 14.7% response rate (581 responses) with 73.8% of respondents holding a rank of VP, CMO, or higher. Results were released in late February.

Marketers remain pessimistic about the economy (59.3%), the survey found, but fewer are pessimist than in August (77%). This shift is accounted for by the increases in the "no change" response, showing the marketers may be reaching an understanding about the new marketplace or they may believe the worst is over.

B-to-C service marketers are the least optimistic (up from 60% in August to 74%). B-to-B product marketers are the most optimistic and showed the most improvement (to 46% from 78% in August).

Marketers' views about end-customers have not changed since August. This is encouraging given the economic losses during this period. However, when discussing customer behavior, marketers expect the largest declines in the price customers are willing to pay (from 51% to 14%), but also customer purchase volume (from 38% to 30%) and willingness to buy related products and services (from 46% to 32%). Conversely, marketers indicate they see a small opportunity for new customers entering their markets. Throughout the survey, results

B2B PERSPECTIVES FROM

ISBM
Institute for the Study of Business Markets

Researched marketing truths

The Institute for the Study of Business Markets celebrated its 25th anniversary this summer, with a two-day conference probing the current and future state of business marketing practice. Here's a sampling of our favorite indelible truths from our experience.

Understand, quantify, demonstrate and document customer value. When both seller and buyer focus on creating value and sharing its benefits, everyone wins.

Look beyond what customers say. Finding customers' real hot buttons, and understanding how different purchasing influencers work together on buying teams, are keys to successful selling to business.

Your customers can develop valuable new offerings for you if you let them. Customer co-development programs and studying how your most innovative and unusual customers use your product will spur innovation in market-oriented directions.

Take a long- as well as a short-term view of markets. Even in times of economic recession, marketing is a necessary investment.

Implement STP. Following the discipline and logic of "segmenting," "targeting," and "positioning" ensures marketing efficiency and focus.

Never doubt the power of brands in business markets. A brand name built and nurtured to connote value opens business customer doors and impresses buying decision makers.

Keep the right customers; lose the wrong customers.

Communications are no longer from "us" to "them." The communications models of the 20th century don't describe a digitally networked world.

Cost and price have never had a fundamental relationship. Effective segmentation goes beyond the obvious ways of categorizing customers, such as industry, size, or location.

In B2B, customers are a scarce resource. Many times you know all of them. "Go deeper" with customers you have, to create and capture additional value.

Finally, we've learned in 25 years of research and practical experience that, as marketing guru Kevin Clancy puts it, "Your gut is not smarter than your head."

The Institute for the Study of Business Markets, headquartered in the Smeal College of Business at Penn State, is a global research center focused on B2B marketing. For more information, please contact Ralph Oliva, ISBM Executive Director, at roliva@psu.edu or visit www.isbm.org.

New Ideas from MSI
MARKETING SCIENCE INSTITUTE

Mindset Metrics

Growing demand for marketing accountability requires marketers to obtain and analyze the right metrics to demonstrate marketing's value in a consistent manner. Until now, researchers have used one of two approaches for evaluating effectiveness: Quantitative researchers have modeled the direct sales effects of the marketing mix, while branding experts have tracked customer mindset metrics such as awareness, affect and purchase consideration.

Shuba Srinivasan, Marc Vanhuele, and Koen Pauwels merge the two approaches, and analyze the added value of including customer mindset metrics in a sales response model that already accounts for the short- and long-term effects of the marketing mix. They ask whether and to what extent mindset metrics really help to explain brand performance. They also try to determine the size and length of the mindset metrics effects on sales, as well as whether mindset metrics are driven by marketing actions. They quantify the size of marketing-mix effects on consumer mindset metrics, and the effects of a brand's and its competitors' metrics on brand sales. They estimate models using a dataset with seven years of four-week measures of sales, marketing actions and consumer mindset metrics for more than 60 brands of four fast-moving consumer goods.

Their results reveal that awareness, liking and purchase consideration indeed have an impact on sales, beyond the direct effect of advertising, price, distribution and promotions. Across the four product categories and 61 brands examined, the contribution of mindset metrics was substantial; almost one-third of the total explained sales variance was attributed to these metrics. Competitors' and a brand's own mindset variables similarly contribute to sales performance.

The authors' methods and findings should help marketing executives make a case for building share in customers' hearts and minds. Their findings suggest that quantitative modelers should include mindset metrics in sales response models, and that branding experts should include competition in their tracking research.

(From working paper, "Do Mindset Metrics Explain Brand Sales?" *MSI Report No. 08-119*.)

MSI is a nonprofit organization dedicated to advancing the theory and practice of marketing to achieve higher levels of business performance. For more information, visit www.msi.org.

showed marketers both expect to and are working to retain current customers.

Conversely, marketers' optimistic views about channel partners dropped considerably. Marketers were most optimistic about channel partners in August (four-to-five pessimists to optimists), but that number dropped to four-to-two in February. Last August, these marketers appeared to pin their hopes on the relationships they had with their channel partners. However, as the economic pinch has hit their partners, these latest results show those expectations were not met. Survey data suggest only 10% of firms expect to be able to charge their channel partners more for products and services going forward. Marketers predict they will be faced with more pressure to lower prices despite lower purchase volume.

This shift in channel behavior can be attributed to the end-consumer's shift in behavior. While marketers continue to cite price as the number one priority of their customers, marketers report that customers are placing a greater emphasis on trusting relationships (up to 65% from 54% in August). Complimenting this insight, additional survey results show that marketers are increasing spending to cater to these important relationships.

Despite the challenges, marketers acknowledged greater cooperation occurring between competitors on non-price strategies. In an economy that could encourage Darwinian behavior, there is no increase in rivalry for customers.

Responding to these new marketplace dynamics, marketers report the emergence of new growth strategies. Although market penetration remains the dominant growth strategy, marketers suggest firms will reduce this emphasis from 51% to 48% in the next year. Spending growth over the next year will go toward new product or service developments (increasing to 24% from 22%) and market development (to 18% from 17%).

The overarching spending strategies illustrate marketers' desire to try new techniques to nurture old and to create new customer relationships. Marketing spending is shifting from traditional advertising outlets to the Internet—firms will spend 10.2% more on Internet marketing this year. New product introduction spending will increase 10.5%.

These strategies and spending moves reflect hopes for improving return on marketing investment with a less expensive and more effective set of tools. Overall marketing spending is expected to increase only an average of 0.5%, traditional advertising spending is expected to decrease 7.3%, and brand building spending is expected to increase only 1.8%.

Marketing budget cuts may be one of the drivers of these spending shifts. B-to-C product marketers predict the biggest spending decreases in the next 12 months, dropping 6.6%. Meanwhile, B-to-C service marketers point to a minimal spending increase of 0.7%. B-to-B firms are projecting larger marketing increases by comparison: B-to-B product marketers project an increase of 2.7% and B-to-B service marketers estimate a 3.0% increase.

Hiring is flat and the use of marketing consulting services is down, but firms are holding steady in knowledge-related initiatives, including research, training, and customer insights. Results indicate that marketers believe the best remedy to the downturn is to improve existing human resources. Firms are increasing spending on creating knowledge about how to do marketing (up 3.4%) and integrating what they know about marketing (up 5.1%).

Spending increases for these internal improvements are predicted even as marketers report their firms have exceeded prior performance on knowledge metrics. For example, although marketers predicted a goal of 1.7 (out of 5) on customer insights in August, they performed at a level of 3.5, and their goal is 4.3 in the next twelve months.

In an uncertain economy, knowledge serves as an engine for making the effective marketing decisions that fuel growth.

Survey results show marketers reporting their firms as underperforming on key profit metrics over the past 12 months. For example, firms pursued a 4.6% increase in profits, but only achieved a 1.6% increase. Goals for customer retention, customer lifetime value, and brand appear to have been met.

Continuing on an ambitious path, marketers are steadily focusing on going green and acting sustainably. One interpretation of these results is that customers view their interactions with companies more holistically, hence, the customer's emerging priority on a trusting firm relationships. This relationship extends to a larger view of the firm's contributions to society.

In general, despite their recent performance, firms are continuing to set ambitious goals. While they may be beyond reach, this viewpoint of marketers is a good sign that their firms are still striving for growth and pursuing excellence.

One theme was abundantly clear—top marketers are determined to reinvent traditional marketing methods to keep up with the evolving marketplace and complex economic challenges.

To get involved with the CMO survey, sign up http://faculty.fuqua.duke.edu/cmosurvey/participate/

Marketers are Becoming More Optimist

	Less optimistic	No change	More optimistic
Are you more or less optimistic about the **overall economy** compared to last quarter	59% (77%)	26% (10%)	15% (13%)
Marketer Optimism by Economic Sector			
B-to-B-Product	46% (78%)	37% (7%)	17% (15%)
B-to-B - Services	54% (84%)	30% (8%)	16% (8%)
B-to-C-Product	59% (82%)	28% (9%)	13% (9%)
B-to-C – Services	74% (60%)	13% (20%)	13% (20%)

February-2009 results to the left, August 2008 figures in parentheses

THOUGHT LEADERS

FROM THE AMERICAN MARKETING ASSOCIATION

Keep marketing influential

Peter C. Verhoef and S.H. Leeflang investigate the diminished influence of marketing departments in firms. The results indicate that marketing's influence is positively related to market orientation, which in turn is positively related to firm performance. In addition, there exists a dual relationship, such that a marketing department's influence is positively related to market orientation, and market orientation is positively related to the marketing department's influence. Thus, building a strong marketing department goes hand-in-hand with developing a strong market orientation.

Two primary implications follow from the findings: First, marketing departments should become more innovative by increasing their share in new product and service concepts. Second, marketing departments should become more accountable by linking marketing actions and policies with financial results.

(From "Understanding the Marketing Department's Influence Within the Firm," *Journal of Marketing*, March 2009, Vol. 73, No. 2)

Does quality=No. 1?

Some researchers assert that high-tech markets are efficient and that best-quality brands dominate, whereas others suspect that network effects lead to perverse markets in which the dominant brands do not have the best quality. Gerard J. Tellis, Eden Yin, and Rakesh Niraj examine the relative roles of quality and network effects in the success of software, hardware and some services between the early 1980s and the late 1990s.

The results indicate that market share leadership changes often; switches in share leadership follow switches in quality leadership; and markets are efficient insofar as the best-quality brands generally dominate the market. Thus, a rush to be the first is not necessarily a wise strategy, even when network effects are present. Striving to have the best-quality product pays off in superior market share.

(From "Does Quality Win? Network Effects Versus Quality in High-Tech Markets," *Journal of Marketing Research*, April 2009, Vol. 46, No. 2)