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On the strength of one link in the cable, dependeth the might of the chain…so too must the marketing link transcend sales and also be strongly connected to the engineering, merchandising and procurement functions

By Harry Gray and Chad Greenway

Middle market participants by and large understand the association between marketing and sales. These two functions, interwoven by a common pursuit of growth, generally dovetail with minimal inter-departmental friction. In the end, leaders in these functional areas understand their own mission and have an intuitive appreciation of the others'—one creates demand and the other fills it. Unfortunately, other critical cross-functions garner less attention than the node connecting marketing and sales. Indeed a successful linkage between marketing and innovation functions (e.g., engineering / R&D) or sourcing functions (e.g., merchandising and procurement) is essential for optimal "spending for growth"; as you would expect, the frequently overlooked node between marketing and these activities applies in particular to engineered products as well as retail, wholesale and distribution sectors.

Conventionally, a marketing solution can stand-alone; it does not have to incarnate a high-risk product introduction with massive advertising outlays and sizable startup expenses. Indeed, marketing can build on present strengths by focusing on improved efforts with existing products, markets and/or distribution channels. When campaigns are constrained to the same product, same price and same channels of distribution, marketing must rely on "perceptual differentiation" tactics to leverage new advertising and sales promotion. Perceptual differentiation will fall short when market forces and consumers demand tangible product innovation. In that scenario, marketing must extend to "applied differentiation", entailing new and different applications such as new packaging concepts, new sales literature, or same product used in new or different applications. Applied differentiation generally carries up-front costs, training for sales personnel and for the trade, and possibly cannibalization of the existing product line or other risks that could be greater than those for perceptual differentiation. When competition demands specific product enhancement or modification in addition to the new packaging, advertising, sales promotion, and other augmentations, marketing must focus on "palpable differentiation". This is when real dollars are spent. As the continuum shifts from perception to tangible product attributes, not only do time, risk and investment increase, but also the importance of coordination between marketing and innovation functions or sourcing functions increases.

In engineered product environments, such as technology, pharmaceuticals and automotive, growth mostly hinges on innovation through palpable differentiation. However, in many instances, pursuing engineering solutions in a vacuum can be a failed strategy. In fact, in a comprehensive 2005 study, Booz Allen Hamilton found no direct correlation between R&D spending and sales growth, operating profit or shareholder return; a conclusion that dispels the old myth that higher R&D spending translates to a competitive advantage. Product development and launch is often hampered by engineering-marketing interface issues. In some cases, these issues cause teams of outstanding engineers and marketers to become dysfunctional because of profound basic differences between the two disciplines of marketing and engineering; training and job functions cause engineers and marketers to think very differently and there are chronological phase differences in the level of enthusiasm between a marketing manager and his engineering counterpart in a product development and launch project. Growth through innovation hinges on close R&D/marketing relationships, yet too often the weakest part of the value chain is the link between marketing and engineering. Think of this as linking a cost center's black box to tangible customer focus.

At the same time, in the retail and wholesale sectors, increased sales begin with a coordinated approach to marketing and merchandising. Both sectors strive more and more for the truly personalized shopping experience and must focus on customer segmentation and personalization of the shopping experience to know the customer better and target the customer more effectively in terms of driving conversion rates. Conversion rates are the elementary and driving force behind greater revenues, so both retailer and wholesalers must seize cost effective initiatives to create "sticky" relationships by investing in converting shoppers to buyers, minimizing cart abandonment, generating repeat purchases and more frequent site visits and growing the average order size.

Unfortunately, in many companies, the marketers drive traffic to the site or store while the merchants independently decide the product portfolio in the store or on the site and how it is showcased. Leaving these nodes unconnected often creates a disparity between what the customer expects and what the customer actually sees on the site or in the store. The marketing and merchandising staffs are each hands-on teams running the business, yet too often they operate in silos.

Generally, one of the best ways to engage customers and convert browsers or shoppers to buyers lies in customer segmentation to deliver the most targeted message possible to each shopper constituency by leveraging product category and transaction data; the next best levers would be standard research measurements such as demographics, geographies or psychographics, and shopping behavior such as cross-channel activities or cart abandonment. An organizational structure that integrates marketing and merchandising with segmentation and personalization will deliver the higher conversion, customer retention and reactivation that merchants seek.

This phenomenon also exists in the distribution sectors; here too, a fundamental breakdown between marketing and procurement will effectuate a similar sub-optimal condition. In higher-volume, lower-margin environments, pricing has a tremendous amount of leverage, as even relatively minor improvements to price can have a major impact on profitability. In a strong economy, distributors under-appreciate optimized pricing practices. When the tide shifts, however, too many managers focus on back-end cost cutting and process efficiency. We believe pricing is an activity owned by marketing, and price optimization can yield considerable top-line benefits that drop directly to the bottom-line in distribution.

As we have illustrated across many sectors, an effective interface between origination functions and marketing can be vital for the successful development and commercialization of new products or the sourcing of market- and customerpreferred products. Building a solid bridge between the marketing and these areas, and then ensuring the innovation and sourcing activities are led from within the marketing strategy area, will help companies achieve better returns on their important initiatives and campaigns. So, in the middle market, how do you effectively adjoin marketing to origination functions? We have found a number of actions that specifically link the marketing and engineering/R&D nodes, as well as a few unique actions for linking marketing to either procurement or merchandising, including:

- **Establish and maintain education and training as a cultural norm.** The main sources of conflict between engineers and their marketing colleagues are differences in education and training, as well as different goals and priorities. Both managers and educators of engineers and marketers need to understand how the differences in education and training influence the relationship, and to develop courses, which will help the two functions become more astute regarding each other's needs. After on-boarding, the company can tackle this burden by establishing cycle training that exposes functional area practitioners to the tools of the other's trade, including strategic analysis tools and market validation techniques.

- **Avoid senior management project bias.** Senior management bias towards specific project types can be detrimental to company success. For example, senior management with a strong technical background favoring technology-oriented innovation projects will tip the balance to the black box of engineering spend. The main objective is to foster R&D and marketing balance starting at the top of the organization. We have found that sometimes strict functional organizational structures can handicap cross-functional integration. Middle market companies must integrate R&D and marketing in order to avoid over-engineered products failing in the market and to create more breakthrough innovations that satisfy new market needs. The level of integration determines how well R&D and marketing collaborate throughout the entire innovation process from the initial idea to market launch. Highly integrated R&D and marketing will share the same vision for innovation projects, maintain trust, openly communicate and frequently interact with each other, share relevant information from each department, and jointly use this information to make decisions regarding the innovation project, for example, on new product features. A high degree of integration ensures that market requirements are aligned with technological capabilities throughout the entire innovation process. This prevents one functional department from dominating the other, which could lead to either over-engineered products when R&D supersedes marketing or incremental innovations when marketing dominates R&D. The fulcrum needs constant rebalancing with tangible customer needs on one scalepan and market-advancing thought leadership on the other.

- **Evolve from a sales-led organization to a marketing-led organization.** We have said that marketing creates demand and sales fills demand. We feel that marketing activities too often over-emphasize branding, trade shows and advertising; in the long run, these PR-heavy activities alone will not position a company as a cutting-edge competitor. Instead, marketing should involve data-driven, metrics-focused practices. These disciplines will drive stronger campaigns and programs, up-level the conversation from "what did we do" to "what did we learn", enable the tracking of performance indicators, and induce the marketing head other business-unit leaders and sales leader to agree about what matters early on—a predictive and robust organization.

- **Exploit niches with product advisory boards…then benchmark.** When a particular product emerges into a successful, growing niche, tailored efforts may be necessary to reap its exploitable potential. In these exciting instances, managers should explore the development of a process-oriented organizational structure that fosters, among other things, the integration of R&D and marketing. While innovation can be a significant key driver of competitive advantage, a key determinant of financially successful innovations within a niche product suite will be the company's ability to balance its technological capabilities with market requirements. This is when a product advisory board can be highly effective. In fact, product advisory boards that measure the correlation between R&D spending and alignment with marketing strategy objectives and company performance can be an integral catalyst to reap the niche's full market value and extract maximum profits. Along the way, the company's product development strategy and roadmap must be verified against overall corporate strategy, and continuous benchmarking of the product roadmap with industry peers will shrink the black box. While companies need to ensure that development efforts do not fall behind industry peers, they must also confirm that development efforts generate a sufficient ROI; hence, the most effective benchmarking exercise will be a joint marketing and engineering task.

- **Build a physical connection between marketing and product development/strategy**. One effective practice we have seen is interim job rotation between marketing and R&D managers to develop a better understanding for the other department's tasks and priorities, thereby improving the relationship between both departments and fostering collaboration and communication. The deployment of cross-functional teams will help manage innovation as a continuously-reengineered process. Through either a matrix or task force approach, these teams should be assembled with members from multiple functional departments. Bringing people from R&D and marketing to a cross-functional team improves the integration between those functions. The independent task force structure has been found to be more effective for R&D and marketing integration because—since core team members are taken out of their functional department for the duration of the project—it creates a much stronger team spirit. The cross-functional teams, however, must be empowered. Finally, co-locating R&D and marketing will improve the integration of both functions, since the level of communication and interaction tends to drop sharply when R&D and marketing are physically separated. When budgets do not support such luxuries, we have found that a liaison position, such as an ombudsman role, can facilitate an approach to balancing technology and marketing. Finally, tying specific project sponsorship from marketing to MBOs based on a full hurdle-rate project with ROI goals and milestones can also be effective. This approach may improve the business significance of the R&D investments from a full value chain perspective. In other words, a marketing executive "owns" a product and is accountable for managing the program from a full lifecycle perspective in conjunction with the dedicated R&D support team. To this end, evaluate setting joint incentives for R&D and marketing to enhance cross-functional collaboration and avoid the dominance of one functional department. Naturally, the incentives should be based on the commercial significance of the innovation.

- **Use phased-development techniques to manage engineering/R&D.** Recognizing that a portion of spend needs to push boundaries, management should explore the deployment of a phased-development program as a stand-alone solution in engineering. One technique, the Stage-Gate® system, helps build an operational road map for moving a new-product project from idea to launch. According to the Product Development & Management Association (PDMA), almost 70% of leading U.S. product developers now use some type of staged development process. Properly implemented, staged development processes have been known to accelerate speed-to-market, increase the likelihood of product success, instill discipline into an ordinarily chaotic process, efficiently allocate resources and reduce re-work and other forms of waste, and reject poor projects. This control and asset redeploy technique will restrict investment in the next stage until management is comfortable with the outcome of the current stage. Until the organization locks down this process, and matures to a stage where these power balancing and fertilization techniques are pragmatic, co-activity around joint customer contact with representation from both marketing and R&D can enhance communications in the interim. Of course, before embarkation, there can be benefit to a solid third-party deep-dive review of current practices. Periodically, it would be wise to retain an R&D consulting firm to validate the Company's R&D spend, not only in terms of dollars invested but also in the quality of the development, efficiency of the code, and the path the company is pursuing.

- **Coordinate merchandising and marketing in retail and wholesale.** Specific mapping through a checklist approach can start the coordination of these functions. Start with a thorough audit of customers and the site or store. It is essential to capture customer information relevant for segmentation starting as at the category level. When practical, request personal feedback at critical junctures to amass behavioral data, such as conducting focus groups and/or surveys to query site or store visitors, as well as past and current customers. By understanding who the customers are and how they shop, merchandising and marketing can co-develop tactics in pursuit of overall strategy. Customer segmentation analytics will energize creative efforts as well as streamline marketing and merchandising efforts, and it will keep branding, marketing and merchandising messaging consistent and coordinated on the web, in print, in-store and in advertising/promotional media. Finally, an advanced look into the forward merchandising window and sourcing supply chain through open-to-buy technology will help both marketing and merchandising; however, as with any investment, volumes should be sufficient to justify the cost.

- **Leverage price optimization software in distribution**. In distribution, relatively minor improvements to realized-price can have a major impact on profitability. Distribution companies need to buy component parts by the million and bulk commodities by the ton; here, optimization tools can determine the ideal market-price range for a finished product based on the costs of goods, labor and carry. This is a critical link between marketing and procurement. To this end, distribution companies can leverage price optimization technologies. This technology had roots in the airline and hospitality industries, but works a bit differently in distribution where prices and deals are negotiated by salespeople. Price optimization technology leverages a company's transactional data and combines it with statistical science and business application software to improve how companies set prices in market. At its core, price optimization measures opportunities to differentiate prices for individual sales transactions on the basis of their unique circumstances; the most obvious examples include deal size, customer and geography. The power of price optimization is that is also reveals additional opportunities hidden in the data to differentiate price including dominant product, end use and deal source. Despite the underlying mathematical sophistication, the output of price optimization software is intuitive and simple for business users to understand and act upon. These price improvements drop straight to the bottom line. Naturally, pricing has a tremendous amount of leverage in a distribution environment, generally more so than cost reductions. Similarly, this technology can guide favorable bidding on all the parts and materials that go into that finished product in a high-volume manufacturing environment.

- **Embrace knowledge management and integration tools.** Business intelligence tools leverage a company's existing data and provide a historical analysis of the data. For information sharing between marketing and origination functions, so that both departments have timely and full access to information relevant for their respective tasks, knowledge management tools can help. For example, if the R&D team is geographically isolated from marketing, this tool will become particularly important for promoting cross-functional communication for faster and better innovation. Likewise, the communication between R&D and marketing can be enhanced by using formal integration tools such as quality function deployment (QFD). QFD is a flexible and comprehensive group decision making technique used in product or service development, brand marketing, and product management. Essentially, QFD transforms the "voice of the customer" into engineering characteristics (and appropriate test methods) of a product or service, prioritizing each product/service characteristic while simultaneously setting development targets for product or service development. As with any sophisticated technique or technology, it is wise to seek third-party expertise.

We believe all companies should establish a game plan to balance and tighten this critical part of the value chain. Companies that understand the importance of customer-to-origination function chains must develop standard operating procedures (SOP) around the process to institutionalize the practice of linking nodes. In fact, long-term success may very well be dependent on a strong marketing team to drive R&D, not the inverse. The alignment of technological capabilities with market demands avoids the development of technically over-engineered products that fail to create the desired customer value and thus fail in the market. A strong focus on market needs without a proper assessment of technological capabilities often leads to mere incremental improvements of existing products. In this case, firms fail to capture significant growth opportunities from breakthrough innovations. In this respect, this is also true with the coordination of marketing to procurement in distribution, and marketing to merchandising in retail and wholesale.