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Building a marketing organization that drives growth today

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Technologies and customer expectations have changed faster than marketing organizations. Here's how to fix that.

From the rise of online shopping channels to ad campaigns created for an audience of one, consumer marketing has changed more in the past ten years than it did in the previous 30. Despite that level of change and disruption, if you had put a few typical marketers from the 1980s into a time machine and sent them into the marketing departments of today, they would probably feel right at home. There might be a new IT department and a few other changes, but the job titles, structures, approach to performance management—even the vocabulary—would be remarkably familiar.

That's not a good thing. The truth is, while the proliferation of new channels and technologies has dramatically changed the environment in which marketers operate, the way they organize and approach their tasks has stayed more or less the same. Most marketing functions still develop and roll out large and infrequent campaigns, rely on agencies to make the same old media purchases, and are organized by geography or product.

As a result, few marketing organizations are able to take full advantage of new digital and advanced analytics tools that would enable them to be more agile, engaging, and effective. They are also missing out on growth. A recent McKinsey survey of executives found that 81 percent of high-growth companies outperformed in data and analytics.[1]

But capturing that advantage requires a new way of working. Some 71 percent of high-growth companies in that same survey have adopted agile processes such as scrum, cross-functional collaboration, and colocated teams. Another report found that top-performing marketers were more likely than their peers to be part of a networked organization (51 percent vs. 18 percent) and met more frequently with other parts of the business to create and deliver customer experience journeys.[2]

Extensive experience working with dozens of companies to improve their organizational models has shown that marketing organizations need to change in three ways. First, they need to shift their organizational model away from "boxes and lines" to a fluid ecosystem of internal and

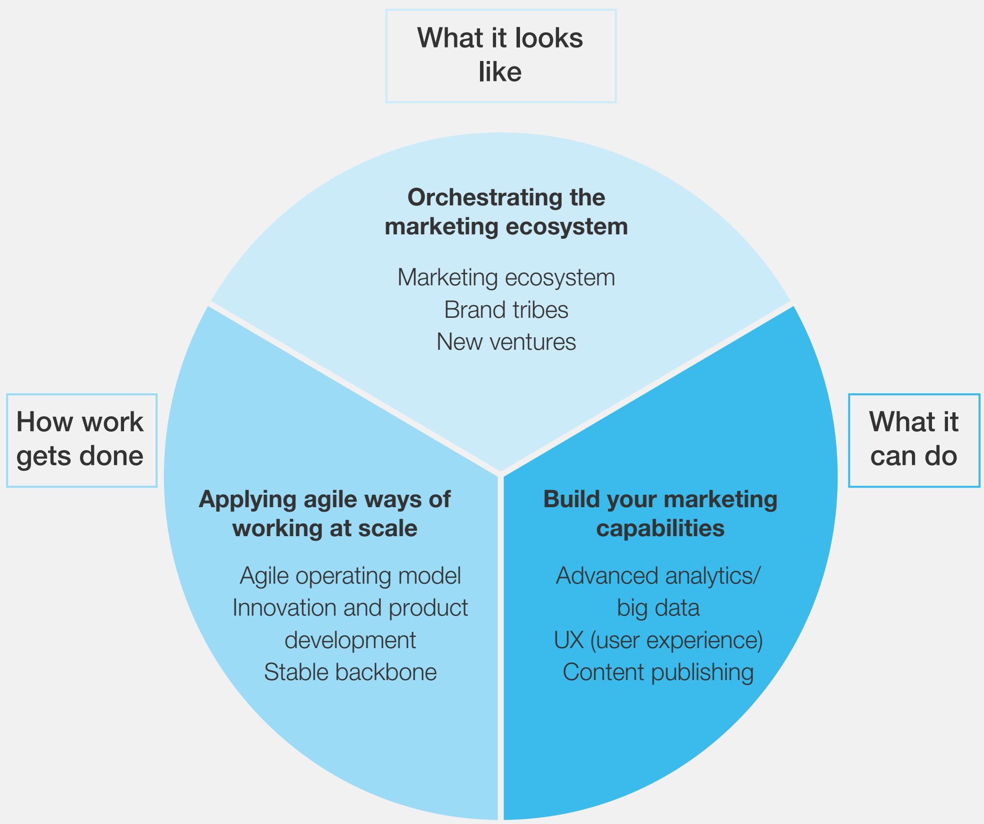
[1] Kabir Ahuja, Jesko Perrey, and Liz Hilton Segel, "Invest, Create, Perform: Mastering the three dimensions of growth in the digitalage," March 2017, McKinsey.com.

[2] David Edelman and Jason Heller, "The marketer strikes back," October 2015, McKinsey.com.

external partners. Second, they must scale agile ways of working. And third, they need to build out a set of supporting capabilities that can deliver great customer experiences (see Exhibit 1).

Exhibit 1

Making the marketing organization fit for the future



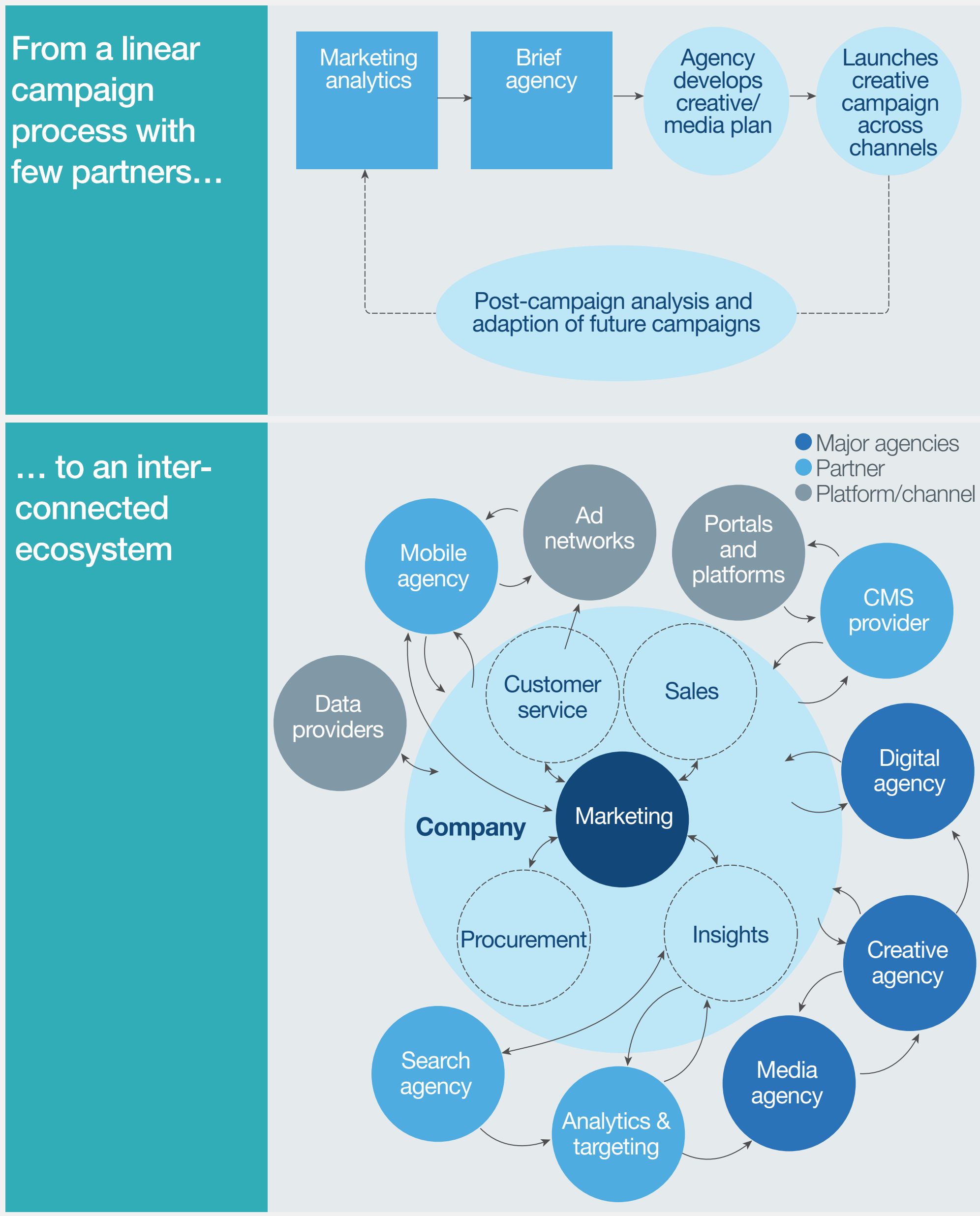
Orchestrating the marketing ecosystem

The digital age has made the old agency model redundant with the emergence of an array of narrower, more specialized services. Making effective use of these capabilities requires new management approaches and ways of working:

- *Managing partnerships—inside and outside the organization* (see Exhibit 2): The traditional notion of managing a roster of a single media agency and one or two creative

Exhibit 2

Managing the ecosystem



agencies of record seems like a relic from ancient marketing history. Today's world features multiple channels and capabilities, such as search, social, programmatic, and content management, all of which need to be closely coordinated to be effective.

The teams that deliver these services—whether internal or external—need to function as an interconnected 'ecosystem.' An early decision is figuring out what to handle internally and what to outsource to an external partner. Core competencies such as strategy are best handled by the brand, while execution functions and experimenting with new media or channels can be handled by external partners. Over time, as the brand has a clearer sense of the value of the new capabilities, many activities will shift to internal teams.

The real complexity comes in orchestrating all the teams. For this model to work, agencies can no longer be simple inputs in a linear process.[3]

Instead, they need to be partners collaborating with brands and each other to create campaigns and assets. Brand managers need to set clearly aligned targets and establish clear deliverables and metrics. Some companies are already creating incentives that reward teams for their ability to work together, not just for their individual contributions. Marketers are investing in tools that coordinate internal teams and external agencies, creating greater transparency in tracking progress.

Supporting this model requires the role of the traditional brand manager to shift from leader to orchestrator. Brand managers need to understand enough of each specialist's area to work with all of them effectively. Most of all, they need to be adept at working within a networked organization in which they sit in the middle of a web of internal teams, agencies, customers, and suppliers. To do this effectively, brand managers need to put in place shared KPIs, communicate clear accountability to each partner, develop a "rapid reaction" governance structure, and create flexible guidelines so that partners can make decisions on the front lines quickly.

- *Build brand tribes:* Brands have long been managed by global teams that design global campaigns and local teams that execute those campaigns as well as manage local ones. This often results in frustration in both directions: Local teams think global doesn't understand their market, and global thinks that local isn't using collective assets. To combat this issue, we have seen marketers start to build "brand tribes"—informal, globally dispersed networks of marketers, who collectively identify and share their best assets.

  Instead of top-down direction, the tribes have community managers who foster global collaboration, post insights, promote assets for particular markets, and discourage off-brand execution. They put in place internal social platforms such as Slack to make it easy for people to share and find relevant content. This gives local managers access to assets that have been recommended by peers and approved by global managers and also provides recognition for those responsible for successful campaigns. Once adopted and embedded into the culture, brand tribes also become a way to reinforce brand standards.

[3] Thomas Bauer, Jason Heller, Jeffrey Jacobs, and Rachael Schaffner, "How to get the most from your agency relationships in 2017," February 2017, McKinsey.com.

One global CPG is instituting a brand-tribes strategy as part of an overall marketing transformation. Led by the CMO, the effort was piloted in brands with strong leadership before being cascaded more broadly across the organization by the global brand heads. The global heads still decide on the major global campaigns and set the guidelines for local campaigns, but the local managers have more freedom to innovate—and to share those innovations with other brand managers on the tribe's social platform. Marketing assets can be voted up or down by peers, so that the most popular and successful campaigns rise to the most prominent positions on the platform.

Assets are also promoted by the community managers, making the platform a source of proven, high-quality assets for use anywhere. To encourage participation, a compensation system rewards brand managers for sharing and participating in the community. Recognition by peers and executives has also become an effective participation incentive.

- *Nurture new ventures:* Companies are under continuous pressure to find new sources of growth, both inside and outside the core business. Recent research has shown, in fact, that companies that are able to create new products or services while maintaining a baseline of other capabilities are the fastest growers. For many companies, however, developing potentially disruptive businesses and business models that threaten the core business is understandably a challenge. Change takes time, and many people are invested in established products and ways of working. For this reason, we have found that companies can be successful nurturing digital ventures by creating new entities for that purpose.

  One way to do this is to create a dedicated new-ventures unit inside the organization to develop new products and business models. This group not only gets the resources they need to prove themselves but are also freed from slow and inefficient processes that often weigh down larger companies. The second way is to partner with start-ups or incubators, which can give companies access to a larger pool of emerging innovations and technologies.

  Recently, L'Oréal took the latter route by investing in Founders Factory, a global digital accelerator and incubator based in London. As part of the agreement, L'Oréal and Founders Factory will invest in and scale five early-stage beauty-related start-ups and cocreate two new companies from scratch every year. The in-house team of experts at Founders Factory, many of whom are successful entrepreneurs themselves, will provide hands-on support and advice to participating start-ups. The strategy provides an early look at innovative technologies and business models that relate to L'Oréal's core business.

The five shifts that have redefined the modern marketing landscape:

1. From targeted campaigns to personalized consumer interactions, leveraging advanced analytics

2. From sales primarily through bricks-and-mortar stores to a mix of online, offline, multichannel, and owned channels

3. From mass advertising campaigns to always-on content publishing

4. From a long-term innovation funnel to rapid test-and-learn, with an emphasis on speed to market

5. From marketing as a cost to marketing as an investment, with measurable ROI

Applying agile ways of working at scale

The capability to test new ideas fast, refine them, and bring them rapidly to market has become essential. Creating new products and experiences in real time, however, requires new ways of working. Old, hierarchical reporting structures and approval-driven corporate cultures run counter to the speed and test-and-learn logic that underlie fast growth.

- *Build an agile operating model:* The concepts of agile and scrum—a specific form of agile that relies on small, self-organizing, cross-functional teams that work toward specific goals or "sprints" by breaking down tasks into smaller parts, assigning responsibility to team members, and reviewing progress frequently—originated in software development but have begun to reshape the way consumer companies innovate and operate. With agile, companies use data and analytics to continuously identify promising opportunities or solutions in real time, deploying tests quickly, evaluating the results, and rapidly iterating.

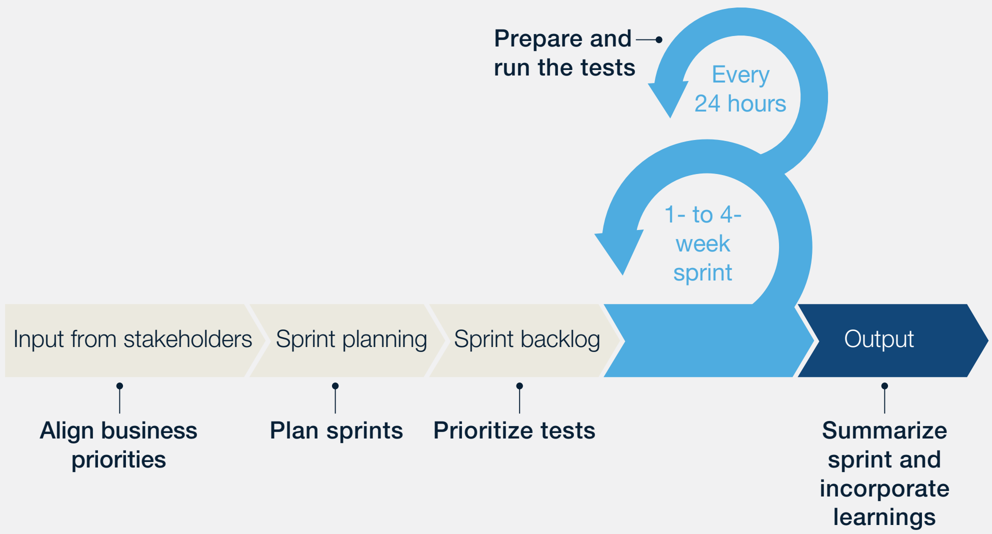
  Scaling agile across the business requires building credibility.[4] For each test that generates promising results, for example, the team can forecast the impact at scale and provide guidelines and rules to the marketing organization to apply the finding more broadly. As companies add new teams, it's important that each one be tightly focused on a specific goal, product, service, customer segment, or juncture in the customer journey. We recommend adding agile teams one at a time, waiting until they begin to operate effectively before adding the next. At scale, a high-functioning agile marketing organization can run hundreds of campaigns simultaneously and test multiple new ideas every week. These new ways of working enable continuous, data-driven improvements to campaigns and assets, while also providing increased transparency and accountability (see Exhibit 3.)

[4] David Edelman, Jason Heller, and Steven Spittaels, "Agile marketing: A step-by-step guide," November 2016, McKinsey.com.

Exhibit 3

Agile process overview

- Quick decision-making process
- Colocated teams
- Cyclical approach



One online travel agency moved from a quarterly pace for development priorities to a rapid cadence of weekly—sometimes daily—improvements, live tests, and code releases. Up to five variants of each design improvement are now live-tested, first for impact on conversion and then against financial and marketing metrics, and improved. The weekly cadence means faster release, quicker reprioritization of tasks, and better performance. In one simple but telling example, the agency was able to move its search position to the top of the results page through a series of rapid cycles of learning how to best optimize its landing pages over six months. The company also reaped a cultural benefit, becoming more open to change and quicker to respond to customers.

This agile mind-set has a bias for action and favors testing ideas quickly in a real market environment. For example, rather than testing a new snack with a focus group, an agile marketer quickly develops the snack, stocks it in a few retail outlets, and measures how it does with real customers. This approach relies on small, dedicated teams with the right mix of design and logistics skills, technical capabilities that include advanced marketing ROI tools to measure performance in real time rather than every six months, and advanced testing architectures to test multiple versions of websites or offers at once.

Netflix has built testing into the core of its culture, continuously A/B testing hundreds of variants of its website and apps, and measuring their impact on viewing hours. To support this, each product team has its own embedded analytics team.

- *Maintain a stable backbone for routine processes:* Agile test-and-learn approaches are critical for dynamic processes in which the outcome is unknown, such as product development or user experience. Other more static processes, such as budgeting, procurement, performance management, customer analytics, and data management, are critical to have in place when scaling new processes. For that reason, they need to be stable and repeatable. Yes, they can be improved over time, but they do not require experimentation or wholesale reinvention. This stable backbone provides a competitive advantage for established companies over start-ups.

Adapting your marketing capabilities for the new world

Describing the agile workplace is one thing; making it happen is another. Marketers need to build or acquire specific new capabilities:

- *Advanced analytics / big data:* To make sense of all the data marketers can now amass, marketing functions need to acquire or build significant new analytics capability. Analytics is what powers a test-and-learn culture in which results can be rapidly scanned, analyzed, and acted on. Advanced analytics systems can help manage the tremendous complexity involved in delivering tailored offers—and even more, in personalizing those offers and predicting what customers will want next. Getting personalization right and scaling it across the organization can reduce acquisition costs by as much as 50 percent, lift revenues by 5 to 15 percent, and increase the efficiency of marketing spend by 10 to 30 percent.[5]

  Williams Sonoma leads in multibrand, multichannel CRM by maintaining a central repository for customer information from both internal and external sources, amounting to 30 years of data for up to 60 million households. This gives the group, which includes Pottery Barn, West Elm, and others, an enormous resource for personalized marketing, including tailored emails and landing pages for new and existing customers. Indeed, 50 to 80 percent of new customers are acquired through personalized marketing messages that rely on this centralized database.

- *User experience (UX):* While most companies understand the importance of a positive customer experience to the bottom line—done well, it can boost revenue 5 to 10 percent and reduce costs 15 to 20 percent—few excel at designing or delivering it. We have found that the starting point for delivering a great customer experience is an understanding of customer journeys, the series of interactions a customer has with a brand or peer to complete a task, such as opening an account or buying a product. Crucially, this isn't about just improving existing journeys but often reinventing them—with the help of digital technologies—to meet and beat customer expectations.

[5] Matt Ariker, Alejandro Diaz, Jason Heller, and Jesko Perrey, "How marketers can personalize at scale," *Harvard Business Review*, November 2015, hbr.org.

Since these journeys touch so many parts of the organization (customer case, sales), marketers need to take the lead in building working relationships with other functions and in establishing agile, cross-functional teams that have accountability for a single journey.

- *Content publishing:* For brands to maintain a tight relationship with consumers, they need to develop always-on capabilities that allow for continuous communication across many channels and formats. Getting the communications flow right requires an editorial team and a content supply chain that continuously creates and delivers high-quality and relevant information or entertainment that can be shared.

■ ■ ■

While many organizations have made progress in the dimensions highlighted in this piece, none, in our experience, has mastered all three. That's because it's difficult, and each situation is unique. But there is a path forward. It starts with looking outside your own walls for inspiration and forming a clear view of where you can excel. Then it requires combining full commitment and unity of purpose, from the executive suite to the teams empowered to create the change. □

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