The McKinsey Quarterly

The **evolving role** of the CMO

Many chief marketers still have narrowly defined roles that emphasize advertising, brand management, and market research. They will have to spread their wings.

David Court

Few senior-executive positions will be subject to as much change over the next few years as that of the chief marketing officer. Many CEOs and boards may think that their senior marketers' hands are already full managing the rise of new media, the growing number of sales and service touch points, and the fragmentation of customer segments.[1] But as the forces of marketing proliferation gather strength, what's actually required is a broadening of the CMO's role. This expansion will encompass both a redefinition of the way the marketing function performs its critical tasks and the CMO's assumption of a larger role as the "voice of the customer" across the company as it responds to significant changes in the marketplace.

Critical contributors to the broadening mission of marketers include the Internet and evolving distribution models, which are profoundly changing the way consumers research and buy products. In addition, third parties such as bloggers and the creators of user-generated media are having a greater influence on corporate reputations. Finally, marketers must help companies find and meet the unique needs of an ever more diverse and global customer base. Taken together, these forces are making companies

[1] For more on marketing proliferation, see David Court, Thomas D. French, and Trond Riiber Knudsen, "Profiting from Proliferation," *The McKinsey Quarterly*, Web exclusive, June 2006.

Article at a glance

As the forces of proliferation gather strength, companies will need to redefine the way the marketing function performs its critical tasks and broaden the role of the chief marketing officer.

Today, many CMOs have narrowly defined roles that emphasize advertising, brand management, and market research.

In the years ahead, companies will need their CMOs to lead far-reaching change efforts, shape their public profiles, help manage complexity, and build new capabilities.

CEOs have a role too: helping CMOs to set priorities and drive organizational change while fostering closer connections between them and other senior executives.

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transform not just the marketing function but also everything from corporate affairs and product development to distribution and manufacturing models.

Because changing customer needs and behavior underlie many of these shifts, CMOs are a natural choice to spearhead the response. Yet many of them find themselves limited by narrowly defined roles. Meanwhile, CEOs and board members, who have been pushing CMOs hard for growth and for more effective marketing efforts, are frustrated by the difficulty of finding chief marketers with the full range of necessary skills. Turnover rates for CMOs are therefore high relative to those of their C-level peers, and CMOs are in short supply. (Just ask any executive recruiter about the number of difficult CMO searches he or she has under way.)

To succeed in this new environment, companies must do two things. First, they need to clarify the broadened role of marketing in general and the CMO in particular. The accelerating pace of change is creating a wide range of potential new priorities for chief marketers—leading change efforts across the whole corporation, playing a more active role in shaping the company's public profile, helping to manage complexity, and building new capabilities within (and even outside of) the marketing department. Second, as the roles of marketing and the chief marketer expand, it will become critical for CEOs to ensure that they have the right person as CMO, to understand fully how customers are changing, and to become more involved in developing new marketing capabilities across the company.

Winds of change

The biggest shift in today's marketing world isn't the much-discussed declining effectiveness of television advertising but the changes in how consumers research and buy products. The Internet is a major contributor to this shift. In categories as diverse as electronics, financial services, and health care, consumers increasingly ignore push marketing, preferring instead to use the Internet to research products and decide which ones to buy. Over half of all US electronics consumers, for example, now rely on Web-based research to narrow the choice of brands and largely ignore the advice of the sales staff when choosing among products in stores. In 2005 nearly half of customers who purchased insurance researched the subject online before talking to agents, and 80 percent expected to do so within five years. Currently, almost 60 percent of aging baby boomers use the Internet to supplement their doctors' advice.

But the change in consumer buying habits is broader. The proliferation of distribution touch points and the more rapid growth of the low and high ends of the market at the expense of the middle are forcing marketers to take low-cost, time-saving, "facts-only" sales approaches and, at the same time, higher-value, more service-oriented approaches, often through alternative distribution channels. A white-goods manufacturer, for example, might need to provide different products, forms of sales support, and even subbrands for mass merchandisers, traditional department stores, and high-end retailers, respectively, to reach customers with different price sensitivities and definitions of value.

The result is a wide range of challenges. One vexing issue for marketers: many new media that seem to be promising ways of gaining access to consumers as they conduct their research are not yet at scale. The result is fragmented media spending and, sometimes, rising costs to generate the desired consumer impact. A broader issue is that marketers must work more intensively than they have in the past with colleagues in other functions to develop, deliver, and communicate value propositions to consumers who want independent advice and frequently aren't willing to pay for higher-touch sales and service. Consider, for example, the white-goods manufacturer mentioned above. Changing customer needs (which marketers understand) create an opportunity to boost sales, but manufacturing, marketing, and sales must cooperate if the company is actually to win big among all three types of retailers.

Shifting patterns of buying behavior coincide with another seismic change: the increased role of third parties in corporate-marketing and reputation-building efforts. While third parties (such as Consumers Union, the publisher of *Consumer Reports* magazine) have been around for years, the Internet's growth has tremendously increased the importance of user-generated media (for instance, blogs, independent sites such as Wikipedia, and YouTube and other video-sharing sites). User-generated media account for almost one-third of all the time individuals spend on the 100 most visited US Web sites, up from roughly 3 percent just two years ago. Consumers skeptical of push ads are flocking to a medium they trust more.

Although good for consumers, this explosion of user-generated content comes with big risks for business. Individuals and nongovernmental organizations that don't fully understand the products of a company, and may be purposefully trying to harm it, can sometimes have as much (if not more) influence over its image as its marketing communications unit. User-generated media, while a long-term marketing opportunity, are thus proving to be a short-term PR nightmare for many companies. Who, for example, can forget the YouTube video clip featuring a cable TV technician sleeping on a couch?

As if these changes weren't difficult enough, the underlying customer needs that companies must understand and meet while they pursue growth in new (and often less-developed) markets are changing as well. Emerging markets are grabbing a larger share of global GDP, and the developed economies' middle market (which many marketers have historically targeted) is stagnating.[2] Growth-hungry marketers must therefore learn how to understand and capitalize on the needs of new markets, segments, and consumers, including people with incomes much lower than those that most marketers were accustomed to in the past.[3]

The CMO's changing role

As companies confront changing consumer behavior, increasingly important third-party scrutiny, and more diverse target markets and segments, they must broaden the roles of marketing and the CMO. Today, many chief marketers focus mainly on building brands, making advertising more effective, and perhaps market research. Although these responsibilities aren't going away, CMOs must address several other areas as well: leading company-wide change in response to evolving buying patterns, stepping up efforts to shape a company's public profile, managing complexity, and building new marketing capabilities throughout the company as a whole. The relative importance of these new priorities will of course vary by company and industry, but the broad importance of reinventing the CMO's role as a strategic activist is similar across them.

Changing to reflect new consumer buying behavior

Consumers knowledgeable about and comfortable with online research and sales will make many companies change their business models. Pharmaceutical companies, for example, must rethink the way the field force calls on physicians, who are becoming a less important influence on the consumer's health care choices. Retailers need to design stores that

[2] For more on market polarization, see Trond Riiber Knudsen, Andreas Randel, and Jørgen Rugholm, "The vanishing middle market," *The McKinsey Quarterly*, 2005 Number 4, pp. 6–9.

[3] For more on how to serve low-income consumers in emerging markets, see Christopher P. Beshouri, "A grassroots approach to emerging-market consumers," *The McKinsey Quarterly*, 2006 Number 4, pp. 60–71; and Alejandro Díaz, Jorge A. Lacayo, and Luis Salcedo, "Selling to 'mom-and-pop' stores in emerging markets," *The McKinsey Quarterly*, 2007 special edition: Shaping a new agenda for Latin America, pp. 70–81.

integrate the Internet's broader selection with the brick-and-mortar approach (as some are now doing with in-store kiosks). In general, there's a need for tighter integration between corporate marketing and sales as Web-based channels expand their role in advertising, sales, and marketing.

The resulting business changes will extend far beyond traditional marketing: a company won't succeed without heeding the voice of customers and their evolving habits in buying goods and services and in interacting with companies and brands. The CMO is a natural candidate to help lead the company as a whole toward business changes that reflect evolving customer needs. It is, for example, the marketing department that is likely to develop (as Toyota Motor has done) programs to position a company in online communities such as Second Life, the leading virtual marketplace, which provides low-cost opportunities to learn how role-playing consumers would design and use new products.

This tight relationship between marketing and critical business changes extends to emerging markets, whose growing importance will place exacting demands on the entire organization to develop, produce, and deliver lower-cost goods and services. A deep understanding of the needs of consumers in these markets and the trade-offs they make will be critical in designing products and retail formats that strike the right balance between price and quality. Since engineers and store design teams in developed markets probably won't have the needed insight, CMOs will have to develop partners and capabilities to tap into high-quality local sources of customer information. Nokia's development of low-cost mobile phones for India and P&G's success with toothpaste in China show how companies can translate insights about local consumers into growth in emerging markets.[4]

Shaping the company's public profile

The increasing importance of third parties will force businesses to enhance their awareness of blogs, chat rooms, and other social-networking media and to develop new strategies both to capitalize on marketing opportunities revealed by consumers and to defend themselves from attacks. Many companies will find that their initial efforts will be defensive ones involving changes to the tried-and-true approach for managing their public profile.

Traditionally, companies have tended to separate marketing (focused on customers) from corporate affairs (addressing government officials), investor relations (catering to financial analysts), and public relations (targeting the press). Often these groups report to different executives—marketing

[4] For more on Nokia and P&G's efforts, see Trond Riiber Knudsen, "Confronting proliferation . . . in mobile communications: An interview with Nokia's senior marketer," *The McKinsey Quarterly*, Web exclusive, May 2007; and Jacques Penhirin, "Understanding the Chinese consumer," *The McKinsey Quarterly*, 2004 special edition: What global executives think, pp. 46–57.

to the CMO, investor relations to the CFO, and corporate affairs (and perhaps also public relations) to a corporate secretary. But consider the following scenario: a nongovernmental organization erroneously complains on its blog that a company is illegally using below-minimum-wage labor to make critically important products. Within days, major media and Internet sites have questioned the truthfulness of the company and the quality of its products, government officials have expressed concern, and its stock has tanked. Who responds? What in the past might have been a PR issue now requires an integrated response across marketing, PR, investor relations, and public affairs.

Over the past few years, McKinsey has been involved firsthand with several large organizations trying to shift their public image. In our experience, classic marketing techniques (such as segmentation and understanding the sources of consumers' opinions) are the foundation of a corporate-image strategy. Public-relations and lobbying campaigns may be the necessary tactics, but any strategy should be based on classic consumer research. Most corporate-affairs executives don't have the background to lead this type of effort and therefore increasingly turn to their marketing counterparts for assistance. CMOs are the natural coordinators of an integrated effort because they understand customers and sophisticated marketing techniques.

Managing complexity

With more countries, more customer segments, more media, and more distribution channels, companies and their CMOs are waging a battle with complexity (see sidebar, "How consumer goods CMOs are coping with complexity"). Consider prices: to set them effectively, consumer companies operating in a number of channels and geographies must address the needs of dozens of segments and make rapid, analytically informed decisions about as many as 20 million individual price points a year.[5] Many companies are developing new approaches to manage this complexity. Most choose to give final pricing authority to the managers accountable for the performance of a brand or geography, supporting them with centrally established processes and policies to ensure consistency across segments and geographies. Small analytic groups often are crucial to ensure the collection and analysis of the pricing data needed to make good decisions.

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[5] For more on pricing in complex environments, see J. Kevin Bright, Dieter Kiewell, and Andrew H. Kincheloe, "Pricing in a proliferating world," *The McKinsey Quarterly*, Web exclusive, August 2006.

One key challenge is reconciling local entrepreneurship with global and cross-segment brand consistency. While the ultimate pricing decisions typically (and appropriately) remain with the business units accountable for profits, some CMOs are beginning to play a critical role in developing data-management tools and processes that help companies to maintain a consistent brand image and to support it despite growing complexity. One such company is a multibrand automotive-battery manufacturer that sells its products through a number of retail channels, including national and regional auto parts retailers, discount mass merchandisers, and warehouse clubs. Its CMO used the real-time reporting of average and lowest net retailer prices by region, channel, and even specific sales outlets to maintain the right price differentials among them. This CMO regularly interceded in pricing and at times even chose to optimize it within a specific region in order to maintain critical price relationships among the various channels, brands, and regions.

Building new marketing capabilities

The changing environment calls for new marketing capabilities, both in the marketing organization and in the company as a whole. Within marketing, for example, the ability to build brands across an increasing number of media, including vehicles dominated by user-generated content, will be critical. Many companies will have to manage an increased number of advertising and PR agencies and to build new skills for creating integrated messages. There also will be analytic muscles to build, such as the data-management skills needed to compare and maximize the effectiveness of on- and offline marketing expenditures.

Many of these skills, such as expertise in the business use of social networking, in digital marketing, or in emerging markets, require a degree of specialization that complements the generalist capabilities of traditional marketing managers. As a result, many companies will be forced to restructure their marketing and sales organizations by creating centers of excellence for key marketing capabilities and, perhaps, by outsourcing marketing activities requiring specialized skills, just as some CIOs rely on external IT-development resources. Not surprisingly, almost 75 percent of the chief marketers polled at a recent CMO summit (organized by the Marketing Science Institute and McKinsey) agreed that the skills they needed were becoming so specialized that their organizations would have to operate quite differently in the future.

The skill-building challenges of CMOs probably won't stop in their own departments—the far-reaching customer-centric changes taking place today are too important. As we move toward a world where 80 percent of life insurance purchasers research the subject online, for example, sales agents seeking to understand their customers must learn to ask them new questions: Have they researched online? What sites did they visit? What impressions of different brands do they have? Public-relations and even general managers need to understand which third parties influence their customers most and what responses work if ill-informed discussions start there. The CMO and the marketing organization have the best position to provide market research and training and to help with the creation of appropriate responses and the required capabilities. It's not surprising, therefore, that some companies are asking their CMOs to establish

How consumer goods CMOs are coping with complexity

We recently surveyed chief marketing officers and their key subordinates at 20 leading North American consumer goods makers whose collective sales represent roughly 50 percent of the US packaged food, personal and household care, nonalcoholic beverages, spirits, and tobacco categories. Among other topics, we asked them about their approaches to managing the changing media environment, brands and brand portfolios, and the relationship between corporate- and division-level marketers.[1]

Most of the survey respondents say they are experimenting with new media such as Internet banner ads and paid search, product placements in video games, and cell phones. Further, a significant number of marketers say that their spending on nontraditional media has increased significantly over the past three years. Nonetheless, television is still the most widely used vehicle. Although marketers agree that the world is changing, many continue with the tried-and-true approaches because the available alternatives lack the scale to achieve marketers' brand priorities fully, and because the absence of a widely accepted independent measure of digital media (such as Nielsen Media Ratings in traditional media) makes it challenging to measure spending effectiveness. These factors may explain why more than one-third of all respondents devote less than 10 percent of their marketing budgets to nontraditional media, and fully half of them spend only 10 to 20 percent (Exhibit A).

In an environment where marketers are experimenting with new techniques, effectively delineating roles and responsibilities between the corporate- and division-level marketing functions is critical. We compared the organizational experiences of respondents in companies that have high-performing brand portfolios with the experiences of respondents in the other companies. (We defined high performers as divisions—units that have their own marketing initiatives and are held accountable for results—with portfolio sales growth of at least 1 percent in excess of category sales growth from 2002–05.)

We found that in companies whose brand portfolios perform strongly, corporate marketing tends to serve primarily as a center of excellence that disseminates information and best practices to line marketers. The other companies' corporate-marketing organizations report spending more time providing marketing services (for instance, managing relationships with advertising agencies), as well as getting heavily involved with global brand and innovation management. In our experience, these tasks can sometimes be profitably performed closer to the front line (Exhibit B).

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[1] The full version of this survey, "How consumer goods companies are coping with complexity," which also addressed issues such as innovation, consumer insights, and relationships with retailers, is available on mckinseyquarterly.com.

"commercial councils" across business units to coordinate their marketing and customer efforts.

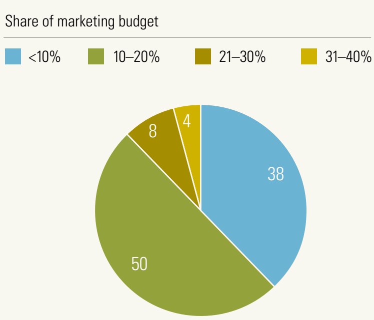
How CEOs can help

CMOs are indispensable for meeting tomorrow's customer and marketing challenges. But CEOs too must take an active role, not just because those challenges are large, but also because close involvement will help them know if their CMOs have the right mix of skills. Today, though, many CEOs spend little time on marketing challenges and treat them as "just for the

EXHIBIT A

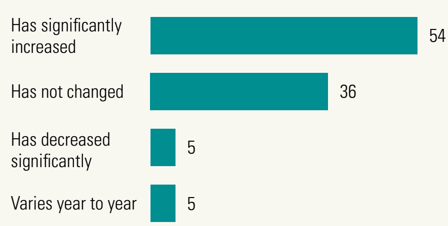
Testing new media

% of respondents who say that given share of marketing budget is spent on new or nontraditional marketing vehicles[1]



Weighted average = 12.9% of budget

Spending on new or nontraditional marketing vehicles in past 3 years
% of respondents

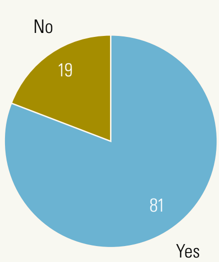


[1] For example, Internet banner ads and paid search (for a fee, companies can get top listing in Internet search engine results when specific search terms are entered), marketing through video games, cell phones.

EXHIBIT B

A center of excellence

% of companies that have corporate-marketing group



Primary role of corporate marketing,
% of respondents[1]

	High performers	Others
Act as center of excellence to disseminate information and best practices to line marketers	50	17
Manage global brands, innovation	0	42
Provide marketing services for company	25	33

[1] Figures do not sum to 100%, because respondents who cite other roles are not shown.

CMO." One reason: the percentage of CEOs with marketing backgrounds has declined in favor of people from operations or finance. Here are three straightforward ideas for CEOs seeking to help their CMOs and ensure that their companies thrive:

- *Take time to understand what's really happening with customers.* Many of today's marketing reviews focus on the brand image and financial results. Instead, find out how the needs of different customer segments are evolving, who is saying what to your customers on which blog, who are the social influencers of your product, and how customers are changing their approach to decision making. On these issues, advances in technology allow companies to obtain a level of insight that is staggering compared with what was possible just three years ago. CEOs can add a lot to such a customer-oriented discussion, but only if they take the time to participate. Gary Loveman, the CEO of the casino operator Harrah's, for example, has been deeply involved in his company's efforts (involving sophisticated customer relationship management techniques) to boost the loyalty of its customers.[6]

- *Foster the right connection between the CMO's efforts and those of the other parts of the organization.* This connection is not only critical for bringing together marketing, PR, and corporate affairs but also important when CMOs are asked to lead major corporate initiatives on strategy and business models. Without the right bridges between the CMO and the heads of business units, the latter tend to view such projects as corporate-staff efforts and therefore delegate participation in them to lower-ranking employees. Ensuring an effective rotation of senior marketers into line roles (and having future general managers spend time in marketing ones) can help break down barriers and infuse a marketing orientation into the entire company. Two of the four senior marketers in the accompanying roundtable (see "Confronting proliferation: A conversation with four senior marketers," in the current issue), for instance, recently shifted from roles leading marketing and sales to positions with broader responsibilities (John Fleming as Wal-Mart's chief merchandising officer and Alex Myers as head of Carlsberg's business in Western Europe).

- *Be a "thought partner" for the CMO as he or she transforms the marketing organization.* A lot of change—skill building, the development of specialists, and geographic decentralization—will be required to create the mar-

[6]For more on Loveman, who began spearheading Harrah's marketing initiatives in 1998 (when he joined the company as its chief operating officer) and became CEO in 2003, see David O. Becker, "Gambling on customers," *The McKinsey Quarterly*, 2003 Number 2, pp. 46–59. For more on the general topic of managing customer segments and experiences, see Sean R. Collins, Peter W. Dahlström, and Marc Singer, "Managing your business as if customer segments matter," *The McKinsey Quarterly*, Web exclusive, August 2006.

keting organization of the future. Even a CEO who lacks a marketing background typically has more experience with this type of organizational-development effort than the CMO does—and can be an extremely valuable counselor.

No relief is in sight for companies wrestling with the forces of proliferation. In the years ahead, an accelerating pace of change will continue to transform the role of marketing and the CMO and their relationship with the corporation as a whole. Q

David Court is a director in McKinsey's Dallas office. Copyright © 2007 McKinsey & Company. All rights reserved.