



## **The Future CMO – 8 Building Blocks for Success**

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## B. THE CHIEF MARKETING OFFICER UNDER CROSS FIRE

Marketing executives and management, referred to in the following as “Chief Marketing Officers” (or “CMOs” for short), face increasing pressure to take action: growing customer demands, the trend towards individualization, Web 2.0, and social media create a complex situation that makes the orchestration of all customer interactions in terms of a “total customer experience management” absolutely necessary. While how to attain the best possible efficiency potential in the customer relationship has already been intensively discussed under the heading of “CRM” in the field of sales and service for 15 years, this development is also now increasing in the area of marketing. In particular, the contribution of marketing to a company’s success and the associated costs are being questioned increasingly. In part, fundamental omissions are being cited as the reasons for the perceived failure of many CMOs, for example, minimally accurate and hardly transparent marketing planning, and above all, the contribution of all of the CMO’s activities to a company’s success, which cannot really be measured. What appears to be an inevitable evil is in fact avoidable and can be converted into a sustainable process for success. Instead of wailing and lamenting, modern CMOs should instead answer the question as to how they are judged from the point of view of the Chairperson of the Board or Managing Directors (hereinafter referred to as “Chief Executive Officer,” or “CEO”) as their superiors, which actions are acutely required, and which measures and steps will improve the current situation sustainably. A survey we conducted in the Summer and Fall of 2009 of 21 CEOs from large and midsize companies with their headquarters in Germany showed that CMOs should underline their contribution to the company’s success effectively, transparently, and traceably by pursuing activities in eight spheres of action – in parallel to generating attention-grabbing campaigns. We have summarized the results of the interviews in “8 Building Blocks to Success.” The interviews show that when CMOs implement these eight building blocks (for parallel projects, for example), the rather critical marketing situation can be turned into a sustainable success.

## C. DEMANDS ON MARKETING ARE INCREASING...

Marketing is also subject to rapidly changing and varied challenges – if nothing else, because of the creation of Internet-based applications (Figure 1). **Customer behavior** is changing more with time and is acting as both a cause and a catalyst for the type of changes in company strategy just mentioned. An increase in the level of individual information combined with better options for collaboration and coordination, such as those used by electronic common interest communities (*virtual communities or blogs*), lead to better communication, which in turn results in more finely tuned approaches for potential customers. Virtual communities and blogs concentrate consumer power and increase the amount of information on specific topics within the virtual interest group. The increase in information that is available to consumers, along with the removal of barriers that prevented new providers from entering the market, leads to a gradual drop in customer loyalty. This increasingly causes companies to implement customer retention measures. In the 1970s, the use of independent test reports (such as the German *Stiftung Warentest*, *Consumer Reports*) led experts to predict the paradigm of a customer who has comprehensive and independent information and a high willingness to switch brands or retailers (an **information seeker**); today the information transparency of the Internet offers an easily accessible information platform for this type of consumer. This increases the need to address the customer, in terms of both marketing communication and the products and services that are offered in a more specific and individual way. The desire for consistent and efficient interaction between the customer

and company requires an increasingly tighter synchronization of all interaction points as part of **total customer experience management**. Not only does this include the synchronization of all activities within marketing (as integrated, 360-degree communication, for example), but it also goes beyond the functional limits of marketing (for example, to include all sales activities, the service area, and other enhanced services).

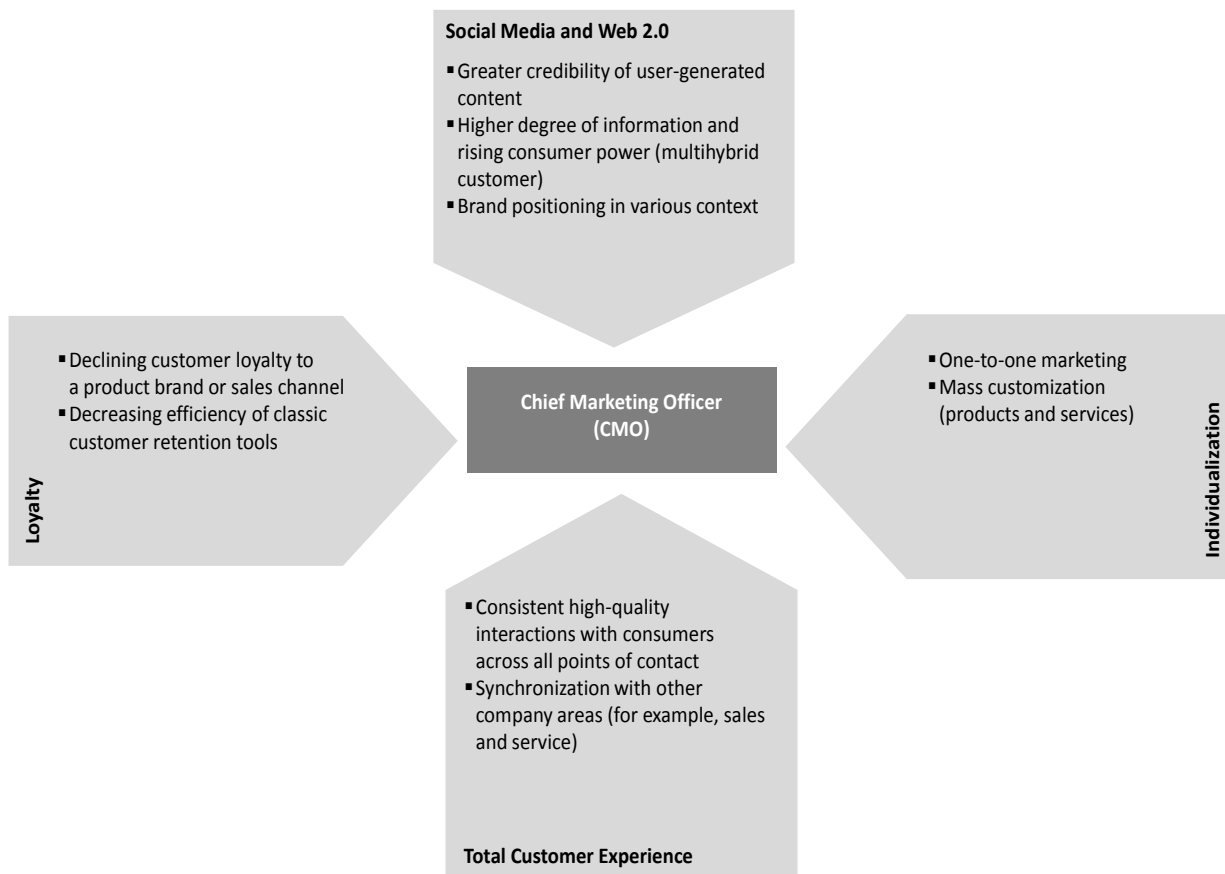


Figure 1 The Four New Challenges in Marketing and the Chief Marketing Officer (CMO)

The pressure on CMOs and the criticism of the marketing function is therefore increasing. Although discussing and criticizing marketing is nothing new, on the basis of added value that cannot be adequately proven, for example, in the sense of a return on marketing investment (ROMI), and studies show that approximately three-quarters of all marketing activities barely live up to expectations, the discussion continues to be kept alive by the rapidly changing challenges on marketing. The arguments mentioned here are hardly new: the job of marketing executives in companies has been viewed in a critical light for about 30 years. Due to the development of the Internet as an interaction platform, the rapidly increasing importance of social media, and the new challenges of Web 2.0, the discussion of the marketing tasks and the role of the marketing executive in the company are more a focal point of the discussion than ever before.

## 1. Challenge: Social Media and Web 2.0 – Communication and Interaction with the Well-Informed Consumer

In addition to the known forms of Internet-based marketing, a number of innovations in the **Web 2.0** environment have either newly emerged (such as blogs as user-created online magazines) or have grown considerably in their significance (for example, search engine marketing). In the new “collaborative” Web, users praise and criticize companies and their management without being influenced by providers or manufacturers, and without considering marketing strategic products, with no concern for losses. What was still unthinkable only a few years ago is now a permanent part of marketing: consumers produce more marketing information through social media than the advertising companies themselves. The result is that the consumer has more and more control of brand management and exerts ever greater pressure on the CMO and brand managers to make fundamental changes. This paradigm shift is succinctly paraphrased by Scott D. Cook, Chairman of the Executive Committee of Procter & Gamble: “A brand is no longer what we tell the consumer it is – it is what consumers tell each other it is.” The reason for this change is trivial: from the user’s point of view, the “collaborative” Web is more authentic, interesting, and credible, which is why it is growing so rapidly. The new Web 2.0 portals live off user-generated content. People describe in plain terms what they think of products and companies – without regard to brand messages and company interests. This usually seems more credible (and above all, much more interesting) to the reader than traditional marketing messages. From the company’s point of view, intelligent use of the Internet requires an authentic dialog with the consumer – both individually and with the entire community.

One example that quickly gained the attention of millions was the conflict between Jeff Jarvis and the manufacturer of his new laptop, HP. The computer was poor quality, the service department provided little information, and what started as a small problem for a journalist and well-known blogger in the United States soon became a huge problem for a globally active company, with the effects still being felt today. Communicating through his “buzzmachine.com” blog, a growing number of HP customers, laptop users, and people interested in technology from around the world tried to help solve the problem. But HP did not recognize the imminent danger. Instead of approaching Jarvis in a highly public gesture with a quick and generous solution for his laptop problem, the company allowed itself to get embroiled in a conflict that it was bound to lose. It seems to be a preeminent law of marketing in Web 2.0 that the customer, being the ultimate object of desire of sales, wins. Jarvis was able to return his laptop and now uses a “Mac” by Apple again, while the failure of HP is a prominent example of the extremely costly and painful learning process of HP’s communication and marketing specialists in the worldwide bestseller, “*What Would Google Do?*”

A consistent brand communication across all areas of the company is thereby faced with a sometimes constructive, often critical, and rarely euphoric publicized consumer opinion, against which it must prevail even when problems arise. What first started at *amazon.com* with simple user content, such as book reviews, is omnipresent today: users register at platforms and write their own text, evaluations, and comments. Brand management becomes a dialog task, the focus of which seems to be to “control the uncontrollable!” But as was clearly shown by the survey presented here, all attempts to control the uncontrollable are doomed to fail. After the fall of the new economy, a new hype was created in **Web 2.0**

on a much more solid foundation of experience than during the first Internet boom: online communities are growing exponentially and are surpassing the coverage of established media at an unstoppable rate. As a result, online advertising is currently the fastest growing item in marketing budget planning.

The **YouTube** video portal ([www.youtube.com](http://www.youtube.com)) is the most obvious example and shows the appeal of these new platforms with user-generated content: almost 100,000 new videos are posted there each day. However, the consumer trend towards **consumer-generated content and advertising** also means that brands may be presented in a context that is not in line with the desired strategy and positioning. For companies, this means that the decision as to whether to use customer comments and include them in their own communication in a profitable way or to try to block them has been preempted. User-generated content cannot be controlled, and companies can only avoid damage to their image by dealing with customers and their concerns in a constructive manner and taking customers seriously. Taking legal steps against Internet communication is mostly counterproductive – this usually results in critical press coverage and calls for a boycott. Brand manufacturers must allow users to take the opportunity to have fun experimenting and playing around with brands and the associated meanings.

In his marketing blog *Cultureby.com* ([www.Cultureby.com](http://www.Cultureby.com)), the anthropologist *Grant McCracken* describes the learning process that a brand needs to undergo: “If you want to keep your brand alive and tangible, you can’t avoid these types of discourse” (Karig, 2007). This inevitably leads to the democratization of brands. In Web 2.0, the Internet user is free to respond to the brand’s message, with responses that, in turn, may be so creative that the form alone carries the message. In this case, the communicative strength is based less on extensive media budgets and strategies and much more on networks, multipliers, and communities. When asked, companies state that broad-based usage remains problematic, particularly on account of insufficient in-company knowledge and experience, as well as the lack of prompt measurability of potential success.

An additional challenge is posed particularly for the planning of marketing measures by network effects – the value for all users increases with the number of users and the posts that they contribute, in the form of blog articles or even simple comments. This is referred to as a **positive network effect**. The *number of users that are needed* for the success of the Web offering – for the widespread dissemination of an online commercial, for example – can be called the **critical mass**. Only when a contribution exceeds a critical-mass point – the dissemination of an online commercial, for example – can the desired viral marketing effect be reached.

## 2. Challenge: Total Customer Experience (TCE) Management

Building on the concepts of Customer Relationship Management (CRM) and using the Internet and other modern information technologies, an approach towards comprehensive, extremely standardized (but nevertheless personalized) customer management of all customer interfaces has been increasingly discussed and implemented since about the turn of the millennium. This orchestration of all customer interfaces is referred to as **Total Customer Experience (TCE) Management**.

Ultimately, TCE means communicating with the customer at all interaction points and providing goods and services in a consistent and highly qualitative manner in line with the brand. While traditionally structured marketing tended to concentrate on generating sales in the short term, market shares, and unidirectional customer information, the relationship-based approach focuses on establishing long-term business relationships, knowledge of individual customers, and interacting with customers. The focus on individual transactions that can sometimes be found is being replaced by an emphasis on business relationships and interactions covering all operational function areas, as demonstrated by the case of Continental Airlines.

After **Continental Airlines** narrowly escaped going bankrupt in the 1980s, it moved in a new direction that focused more on collecting better information about the profitability of individual customers. Part of this involved generating data about how passengers were treated when their flight experienced a long delay, when they were bumped off a flight, or when they were negatively affected in some other way during their journey.

The analysis revealed that customer support was disorganized, wasting millions of U.S. dollars each year. For instance, check-in personnel acted arbitrarily when providing compensation for delays and other deficiencies. One alarming fact was that on average, customers who brought the company the least profit received the *most* compensation. In some cases, “stranded” passengers had even succeeded in receiving compensation more than once for a single incident. Customers who had been bumped from their flight received one voucher for a free flight from the check-in staff at the airport and then received a second voucher when they called customer service to complain. Agents at the call center had no way of knowing that those customers had already received compensation at the time of the incident.

*Continental* began viewing its customer information holistically; it gathered all data relevant to customer contact in a central database, then consolidated and analyzed it. This enabled them to provide the same kind and amount of compensation for delays and similar inconveniences. When a passenger receives a voucher for a free flight from the check-in staff at the airport, the occurrence immediately appears in the database along with all other information about that customer. Even if the customer calls the airline’s customer service center right after they make a complaint at the airport, they will not receive a second voucher (Oldroyd/Gulati, 2005).

### 3. Challenge: Declining Customer Loyalty

The reason for the increase in focus on the customer also comes from the realization that dissatisfied customers are usually gone for good; and more important, they can have considerable negative aftereffects on the respective market. Retaining satisfied customers, on the other hand, requires far less expenditure than customer acquisition and opens up the potential for additional sales (known as **cross-selling**, Figure 2).

Unsatisfied Customers	Satisfied Customers
Only 4% of unsatisfied customers actually complain	Customer retention costs are 1/6 of acquisition costs
75–90% of unsatisfied customers will never return in the future	Satisfied customers are willing to pay more for products and services
Each unsatisfied customer tells another 9 customers	Each satisfied customer tells another 5 potential customers

Figure 2 Comparing the Impact of Satisfied and Unsatisfied Customers (Tiwana 2001)

The strength of the **relationship between customer satisfaction and customer loyalty** generally depends on the following critical factors:

- Features of the business relationship, such as how long the relationship has existed
- Customer-specific features, such as the level of risk with which they are comfortable
- Product features, like product complexity and product introduction expenditure
- Intensity of the competition

From the customer's point of view, the intensification of Internet-based competition generally results in a broader range of alternative offers, which in turn leads customers to refine their expectations of the products offered by providers in an industry sector. This tends to lead to a decrease in customer loyalty. With this in mind, many companies have tended to view the Internet as an **accelerator of a downward trend in customer loyalty**. Increased company activity online, and the range of experiences associated with that, are expected to bring about a further decline in customer loyalty. The only effective way for a company to retain customers in the intensely competitive environment of the Internet is by addressing customers on an individual level to increase the attachment to "cult brands" (such as *Apple* or *Google*) and by using innovative services and comprehensive information to raise the **retention effect** above the **loss effect** brought about by attractive offers from other providers. In this context, recent studies point to a general erosion of brand loyalty, even in the case of strong brand names (CMO Council 2009).



## 4. Challenge: From the Mass Market to One-to-One

In the perception of many CMOs, the Internet has ultimately broken down the barriers for businesses to individualize how they address target groups. Numerous studies predict a steady trend towards individualization in all areas of life for the near future as well. This is due to a growing awareness of quality and function, which demands products that exactly meet consumer expectations, as well as a growing desire on the part of consumers for product variety (known as *variety-seeking behavior*). As a consequence, many providers have been forced to employ marketing that addresses consumers on a more individual level or offer a more diverse range of products even to the point of made-to-order products. Commensurate with this trend, sales markets are constantly becoming more segmented. Ultimately, many companies are faced with the challenge of addressing and processing customers individually.

Individualized services have traditionally been associated with an increase in revenue resulting from the added value generated by a solution that is tailored to a customer's specific needs. However, a number of competitive factors prevent a company from being able to respond to fragmenting sales markets and the trend towards individualization simply by using the classic strategy of differentiating itself by means of variety or offering individualized services and communication in combination with a **premium price**. Challenges such as pricing pressure due to overcapacity, smaller and smaller differences between competitors in terms of technology and quality, and ever-increasing competition from abroad as a result of recent developments in IT all lead to growing market pressure that has changed many industries from sellers' markets to buyers' markets, where consumers are in a much stronger negotiating position. The relationship between price and performance is shifting as well. Even at low sales prices, consumers have relatively high demands with regard to quality, service, variety, and functionality. Conversely, in the case of products with a high degree of differentiation, they also have very specific demands in terms of the maximum price that they are willing to pay. The solution to these challenges has been to replace small-scale individualization at premium prices with **mass individualization** at costs and prices that are approximately equal to those of standard products that are already available, while at the same time offering a higher degree of interaction with individual customers (Figure 3).

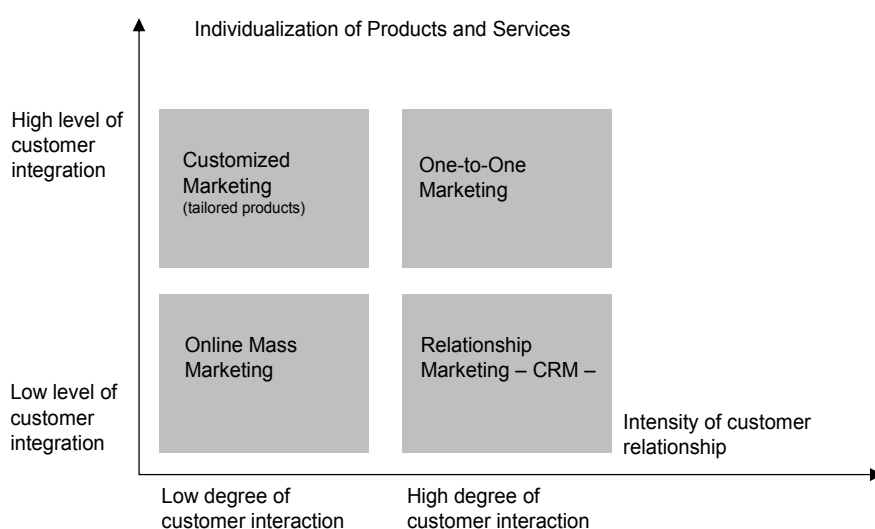


Figure 3 Intensity of Customer Relationship and Individualization of Range of Services

Since the beginning of the 1990s, more and more companies have been turning away from classic mass production and segment-based marketing and opting instead for an **individualized approach**. This approach is based on perceiving every customer as an independent market segment and serving the customer's needs accordingly, both in marketing and in service delivery. Consequently, individualization has bearing on the fields of marketing (**one-to-one marketing**) and service delivery (**mass customization**). In both cases, the starting point of individualization is determining what customers want and transferring those needs into specific marketing activities or service specifications, which makes it absolutely necessary to increase the intensity of the information exchange between providers and customers.

The foundation for individualization is a **customer database** for saving, analyzing, and supplying all available customer data. The permanent collection of customer information builds on this type of customer database, leading to a continuous process of learning and adjustment in marketing and service delivery (known as a **learning relationship**). On the one hand, CRM, as an approach to systematic relationship management, prepares the foundation for subsequent individualization, while on the other hand, individualization is a natural, consistent form of CRM implementation.

Customer-specific mass production or **mass customization** attempts to combine the advantages of mass production (cost advantages from large lot sizes) and customer-specific production (competitive advantages from product diversity) at a cost level approximately equal to that of mass-produced standardized goods.

The following are examples of mass customization:

- The *Original Spin* program by **Levis Jeans**, which manufactures jeans according to customers' individual measurements. It offers a total of 49,500 different sizes and 30 different styles for a grand total of 1.5 million possible combinations of jeans at a cost of US\$55 per pair. Orders are filled and shipped within two weeks.
- **Creo-Shoes.com** and **Nike.com**, which provide personalized shoes.

The point is not necessarily to manufacture a **lot size of one** for each individual customer. Rather, the concept of mass customization, as it applies to industrial goods for instance, is more about manufacturing a large number of identical products – which have already been adjusted to suit individual customers – for a single consumer. This type of individualization is about a few small differences in the details, which from the point of view of the customer, however, are of crucial functional importance. All of the products normally have the same price or follow a clearly defined pricing structure. Bills of materials are dynamic and should be generated automatically; the same is true for production and assembly instructions. Unlike made-to-order, mass customization aims at a large sales market whose customers differ with respect to the specific (albeit crucial) features they want in a product.

Intelligent customer interfaces in the form of design tools help to customize products and services for individual customers by enabling them to quickly and intuitively find a combination that offers them the most value. The Internet has **online product configurators** that lead buyers to the optimum product, harmonizing their needs with the capabilities of the company. Without tools of this sort, customers (or their representatives in retail and sales) often face so many basic designs and combinations of options that the resulting overcomplexity may well prevent them from finding a suitable solution (Piller and Schoder, 1999).

## **D. FOCUS ON THE CHIEF MARKETING OFFICER (CMO) – BETWEEN DESIRE AND REALITY: A SURVEY OF CEOS**

With this in mind, the Change Group (Berlin) and SAP AG conducted a study of the current and future roles of CMOs. The goal of this study was to filter out success factors and trends for the CMO of the future. To do this, existing analyses on the situation and strategies of CMOs were evaluated and success factors were established and then further refined. The analysis of secondary material was further substantiated in a series of 21 personal interviews with CEOs from midsize and large, internationally active companies in German-speaking countries. Among others, these interviews focused on the following questions:

- General satisfaction with the services of the CMO and his or her organization
- The main tasks of the CMO and his or her organization
- The marketing areas with the most acute need for action
- The significance and quality of collaboration with other company areas
- The general contribution of the CMO and his or her team towards the success of the company
- The most important criteria for the success of the CMO within the company
- The CMO's position as an equal and valuable member of the management team
- To what extent the CMO should accept responsibility for all of the communication tasks within the company

During this process, a questionnaire served as the basis for conducting the interviews. The results of these interviews were further validated and refined by more extensive expert discussions, for example, during the CMO community meetings in April/May and October 2009 in Munich, New York City, and San Francisco, and also with the authors of earlier CMO studies. All of the interviews and expert discussions have shown that, in light of the new challenges on marketing, increasingly higher demands are being placed on the CMO's performance, professionalism, versatility, and personality.

### **1. A Young Profession – A Demanding Specialized Area with C-Level Caliber**

The title of CMO first appeared in the 1970s as brand owners promoted their marketing managers to the management team of their company. In the early 1990s, another advance in establishing the position of CMO was made in Silicon Valley. At first, the role of CMO was closely associated with expertise in brand engineering and spectacular advertising campaigns, so that some CMOs were treated as stars. This fact must have seemed dubious to some CEOs or CFOs, leaving an effect whose traces can still be seen today. At the same time, the last 15 years or so have witnessed a clear expansion of the job portfolio of a CMO far beyond brand and advertising. The requirements catalogs for candidates are more strongly influenced by management qualities, strategic strengths, and leadership skills than by the ability to develop attention-grabbing advertising campaigns. This trend is developing in parallel with the change in how marketing is understood – no longer an “art” but as an ever increasingly detailed science.

When asked to rate the importance of various CMO tasks on a scale of 1 (“not very important”) to 10 (“extremely important”), the CEOs that were surveyed placed the most importance on topics such as marketing planning (average of 8.86), consistent brand management (average of 8.86), and optimization of the marketing mix (average of 8.67) (Figure 4).

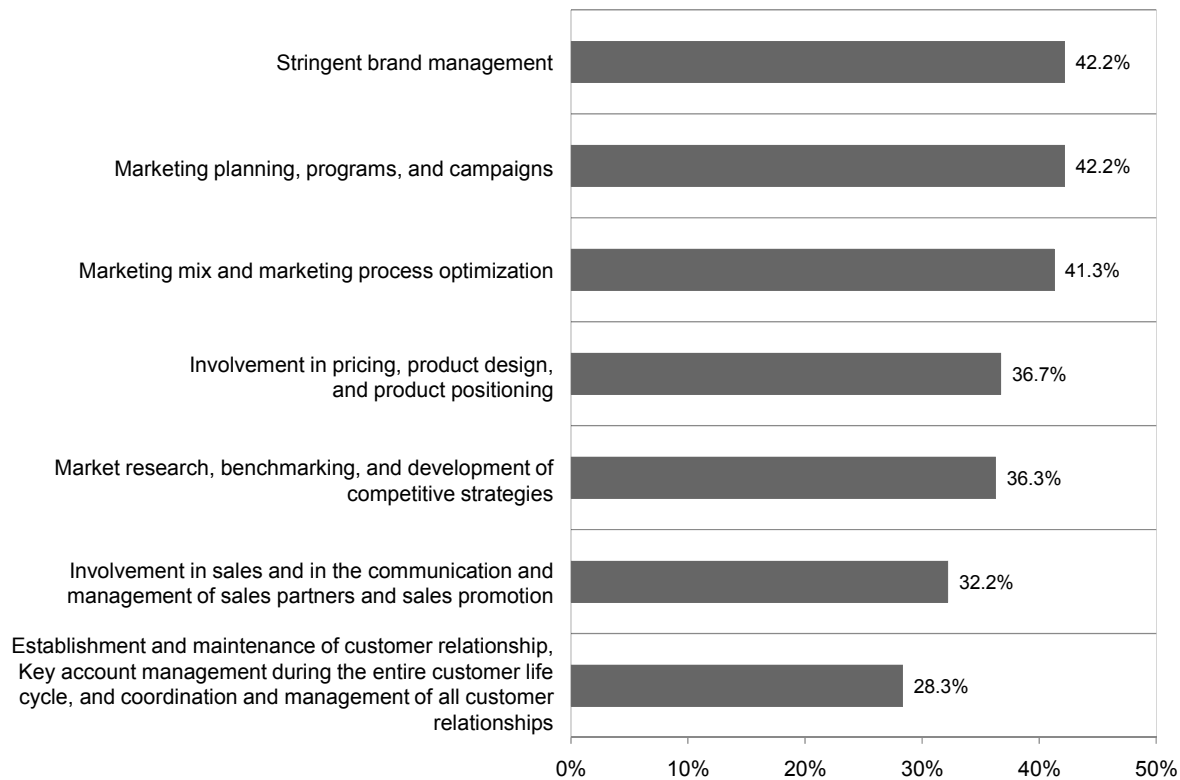


Figure 4 Main Tasks of the CMO and His or Her Organization (on a scale of 1 = “not very important” to 10 = “extremely important”, average values, based on 21 interviews)

In this context, it is interesting to note the discrepancy between the main tasks of the CMO as seen from the point of view of the CMO compared to that of the CEOs on his or her own executive level. A simultaneous survey of 40 CMOs on the topic of “CMO Agenda 2011” shows that their primary focus is more on topics such as “total customer experience management/integrated marketing” or “social media/Web 2.0,” while their own management clearly places much more emphasis on classic marketing subjects such as planning, processes, and brand management. Whereas the focus of marketing executives seems to be with newer and more innovative topics, the attention of those who are responsible for the overall success of the company (i.e., the CMO’s employer) tends to be focused more on classic subjects – especially with respect to the question of the CMO’s contribution to the “bottom line.” One of the CEOs phrased this succinctly by saying: *“It was more important to me to score higher in marketing in areas such as planning and reporting than to make fantastic jumps and pirouettes in the freestyle event.”* In this discussion, it is significant to note that when the CMOs are asked which processes have the greatest potential for improvement, they also indicate that the subjects of planning and budgeting are high up on their agenda. Therefore, precise planning and proof of the contribution to the company’s success by the marketing executives are not only demanded by the CEOs, but they are also identified by the CMOs as being the most important tasks.

In addition to the more functional requirements, both CEOs and HR managers want the CMO's character to possess a "strong sense of business" and "executive-level caliber," to represent a "skilled, eloquent, and self-assured communicator," and also to be formed from a successful history in the fields of communications and advertising. With all of the CEOs that were surveyed, their focus was primarily in the field of marketing communication. Other marketing functions, such as product management or pricing, are associated with the field of marketing much less frequently. Therefore, the main focus of the CMO's employer is aimed more at using financial resources in the area of marketing communication in the best and most efficient way.

## 2. The Discrepancy Between Expectations and Corporate Reality

Even today, marketing managers are mainly hired according to traditional expectations. They should be responsible primarily for all marketing plans, programs, and measures. In many companies, they also assume a higher-level role of having the overall responsibility for brands, their values, consistency, and culture. The efficient use of tight marketing budgets rapidly gains importance in difficult economic times. Above all, a modern CMO is expected to be able to use the resources that are available in the most economical and sustainable way. In this context, we also demand that the CMO should display a high degree of competitive savvy when developing and implementing strategies in the battle to gain the attention of the customers. Satisfaction with the CMO stands at 6.9 (out of 10 possible points). The absolute majority (52%) of the CEOs in Germany are "quite satisfied" with their CMOs, and even 14% indicated that they were "very satisfied" (Figure 5).

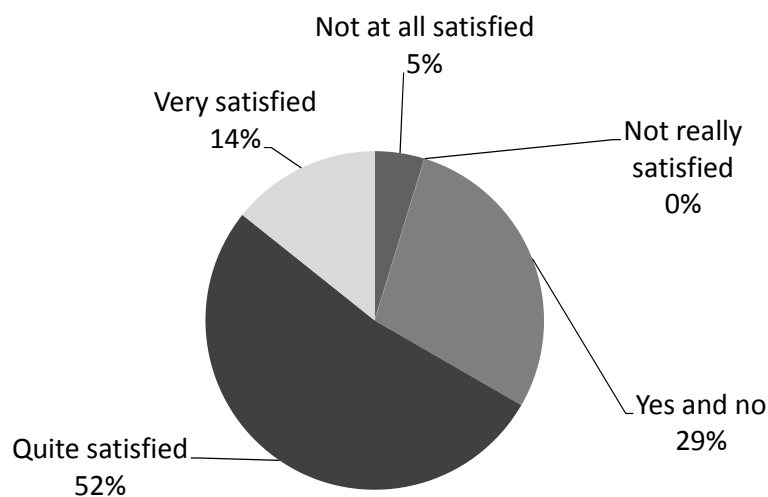


Figure 5 Satisfaction with the CMO and His or Her Organization (on a scale of 1 = "not satisfied at all" to 10 = "very satisfied", aggregated, based on 21 interviews)

The individuals that were surveyed continue to place a significant emphasis on the more classic tasks in the areas of marketing communication (Figure 6), the most urgent of which are:

- The tracking of all marketing activities with clearly defined objectives and indicators as a contributor to a company's success

- The reconciliation of the marketing strategy and marketing planning with the company’s strategy, planning, and target figures
- The conversion of market and customer analyses (“consumer insights”) into specific activities

The main driver for these changes can be found in the clear change in the customer’s behavior – for example, the buying behavior has changed. But in addition to that, today’s communication behavior is also different and is now much more active and demanding. Increasing price transparency, the constantly growing product visibility in “social media” forums, continuous dynamic changes in the use of media and the resulting increased demands of the customers pose relevant challenges for all of the companies that were surveyed. With respect to the use of modern information systems, the CMO is only expected to understand the configuration options (or limitations) of modern IT systems when they are used to support marketing processes. Therefore, IT and software applications must at least be conceptually perceived as modern “enablers” for marketing processes.

The CEOs that were surveyed agree that, from their point of view, there is no acute need for action with regard to marketing processes. At the same time, constant optimization of all marketing processes is seen as a matter of course – especially with regard to the coordination and consolidation of all customer interactions across different functional areas in terms of total customer experience management.

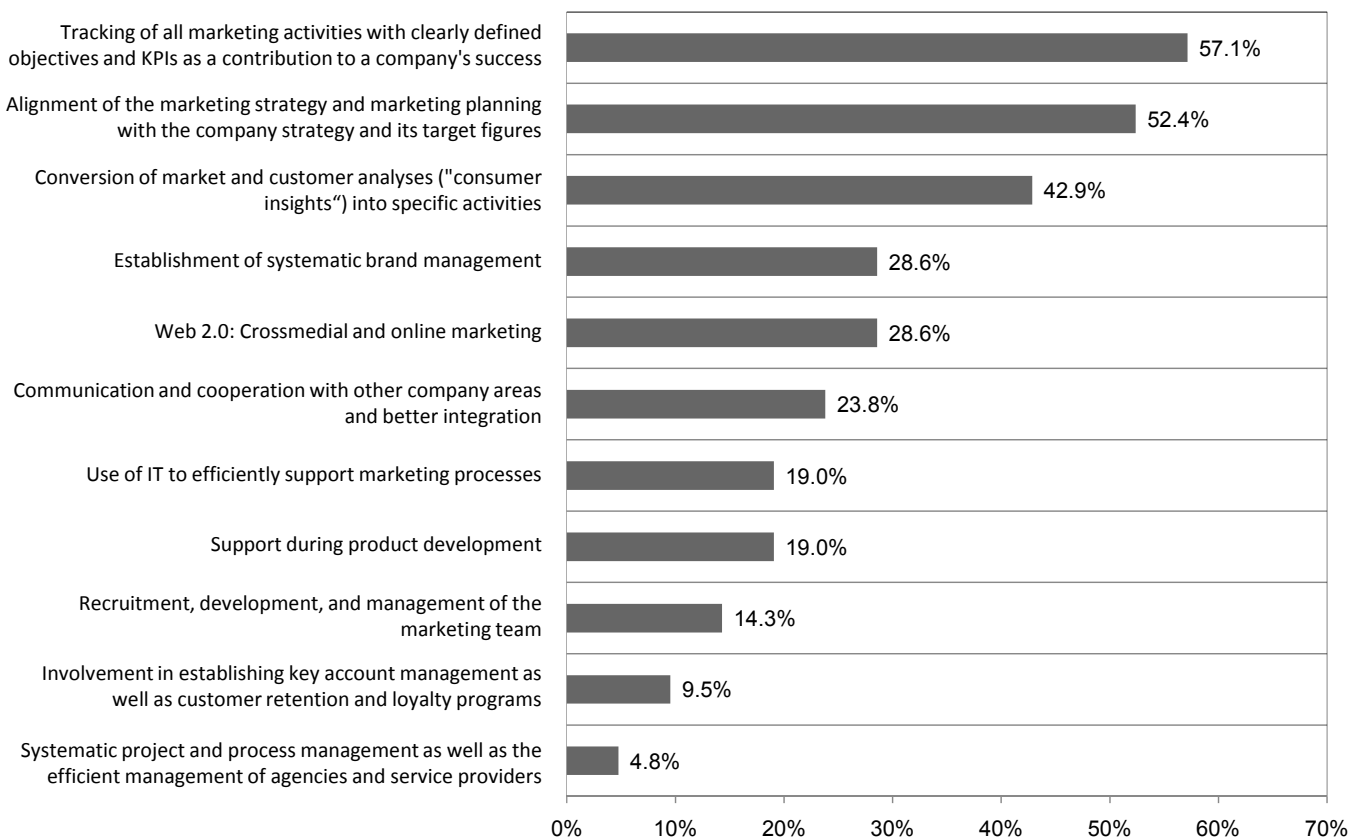


Figure 6 Areas with an Acute Need for Action in Marketing (based on 21 interviews, multiple answers given)

Along with intensified use of the Web, an important driver for the change in the role of marketing managers also lies in the increasing number of communication channels and interaction points for customer contact. User-generated content and relatively new advertising possibilities, such as *search engine optimization*, require not only “integrators” with the widest possible and most cross-functional knowledge for shaping efficient 360-degree communication but also specialists who have a detailed understanding of the individual disciplines. The CMO is faced with the challenge of structuring the understanding and knowledge required in the field of marketing. This requires a shift in focus. Topics such as brand management or the implementation of revenue-generating activities must be supplemented with concepts and activities for the further development of the company-internal marketing organization and the knowledge presented in the existing organizations. Whereas concepts for transferring functions and tasks for outsourcing were discussed and implemented in IT years ago, many companies – primarily in the United States and, to a lesser degree, in Germany – now are increasingly following a marketing outsourcing strategy to gain cost efficiency and access to specialized knowledge.

### 3. The Greatest Challenge: Legitimacy and Credibility at Management Level

Since the majority of CMOs are appointed to corporate management with the support of the CEO, having a good relationship with the boss is a deciding factor for success. However, it is still worthwhile for marketing managers to build and maintain a good relationship with other board members and management executives. Since preconceptions about marketing are more pronounced in these executive circles, which may have little to do with marketing, establishing the legitimacy of the CMO’s function and own credibility is particularly difficult here. The next biggest challenge is educating colleagues at the executive management level about special marketing tasks and actual marketing achievements. After all, it is not always easy to convince the CFO that the marketing budget is justified. Then again, an overwhelming majority of board members (85%) see the CMO as a valuable, strategically oriented, and equal member of the management team – but ultimately do not really trust the CMO with the credible role of a chief officer (Figure 7). Even though the Chief Marketing Officer is perceived as being an equal, his or her function is below the top management level in most companies. This discrepancy between role and function is made even more acute by the fact that, in many cases, marketing as a position is insufficiently incorporated into the company organization. This means that products are often developed without the involvement of marketing, which is then alone in ensuring the successful promotion of the product (Kotler 2005). It is easy to see that such cases have only a limited chance of success. For this reason, interviews and discussions – especially with companies active in the area of fast-moving consumer goods (FMCGs) – have prompted the need for marketing to play a considerably greater role, from product development and innovation management to the launch to market.

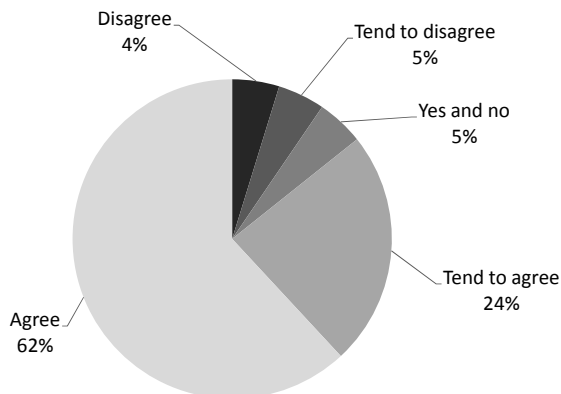


Figure 7 CMO As an Equal and Valuable Member of a Company's Management Team (on a scale of 1 "do not agree" to 10 "very much agree", aggregated, based on 21 interviews)

In rare cases where the marketing executive or CMO is intensively incorporated into top-level company management and leadership, he or she is held in a higher regard by the CEO and colleagues from other functional areas. In most cases, the value placed on this role goes hand-in-hand with:

- Systematic evidence of having contributed to a company's success in the form of direct/indirect sales-influencing activities and transparent key performance indicators (KPIs) (*organizational legitimacy*)
- A history of being a marketing executive with responsibility for profit and loss (*personal legitimacy*)

One of the CEOs surveyed remarked pointedly that "*the Board will only take the CMO seriously if he or she once had responsibility for profit and loss – a CMO simply must have tasted P&L success.*" The interviews show that the technical/functional criteria (suggested on a superficial level) for the success of a CMO – for example, effective cooperation within a company (76.2%) or product/market expertise (52.4%) – are influenced considerably by "soft factors" such as personal credibility, authenticity, or prior P&L responsibility (Figure 8). In other words, even though the CEOs surveyed formally brought the technical/functional criteria to the foreground, a more in-depth discussion revealed that these are considerably overshadowed almost as background descriptors by their perception of the CMO's personal competencies and experiences, such as P&L responsibility.



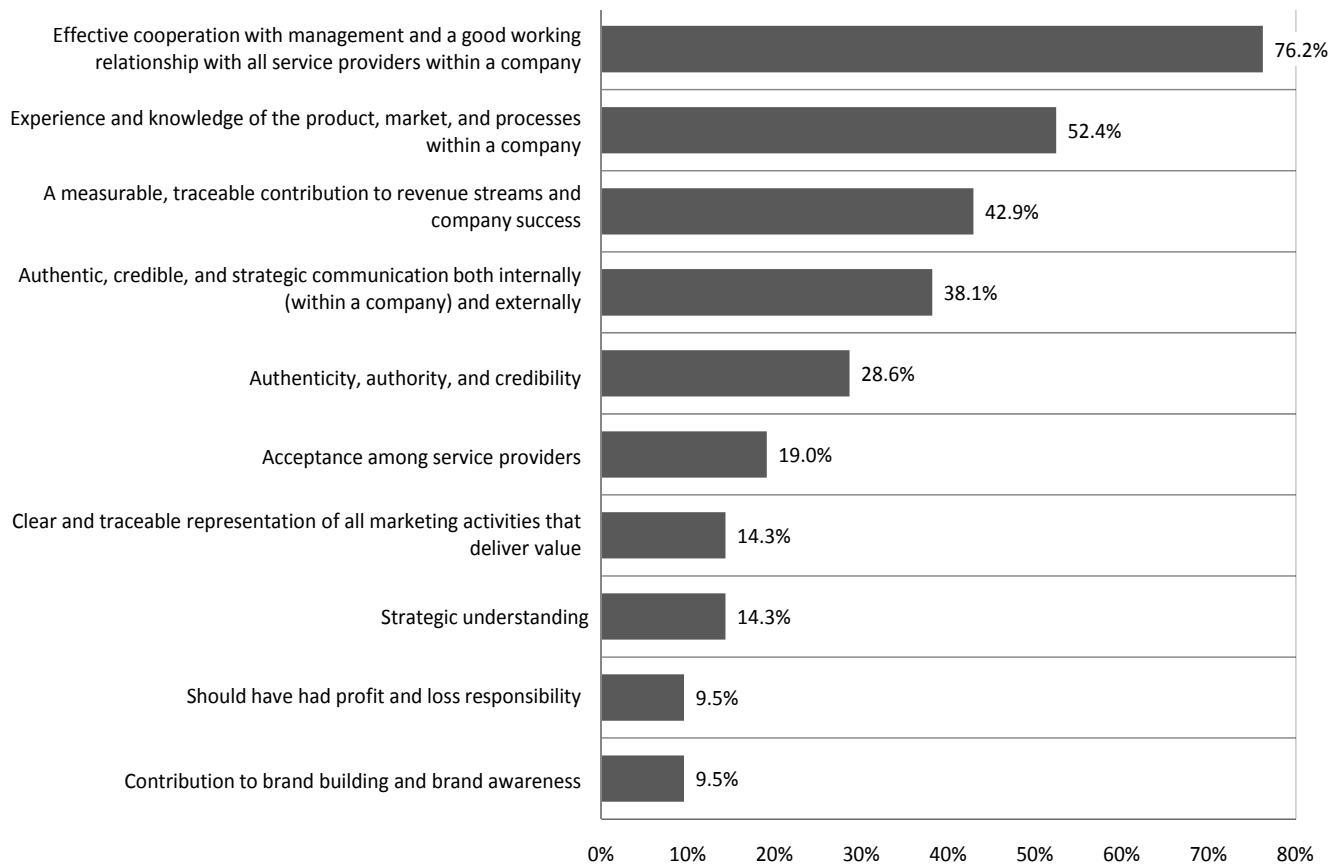


Figure 8 Key Criteria for the Success of a CMO Within a Company (based on 21 interviews, multiple answers given)

The quality of cooperation is classified as “needing improvement,” especially in relation to product management, sales, and PR/corporate communication (Figure 9). Two aspects require particular attention here: In many companies, the more conventional marketing tasks, for example, product management, are not assigned to the area of marketing. At the same time, PR/corporate communication is separate from marketing communication and, in most cases, falls within the direct sphere of control of the CEO. The reason for this direct reporting path to top-level business leaders is because this form of communication is also at the heart of corporate communication and relevant press releases. Consequently, direct cooperation with PR/corporate communication is considered essential here. From the perspective of CEOs and managing directors, there are often two very different reasons for this:

- On the one hand, the CEO, as the highest-ranking representative, must communicate cross-business content and messages, for example, balance sheet figures.
- On the other hand, the CEO is also the highest-ranking representative of the company brand, which – as demonstrated during the recent economic crisis – may cause considerable problems if a CEO behaves dishonorably. In such cases, accusations against the CEO may damage the perception of the company brand.

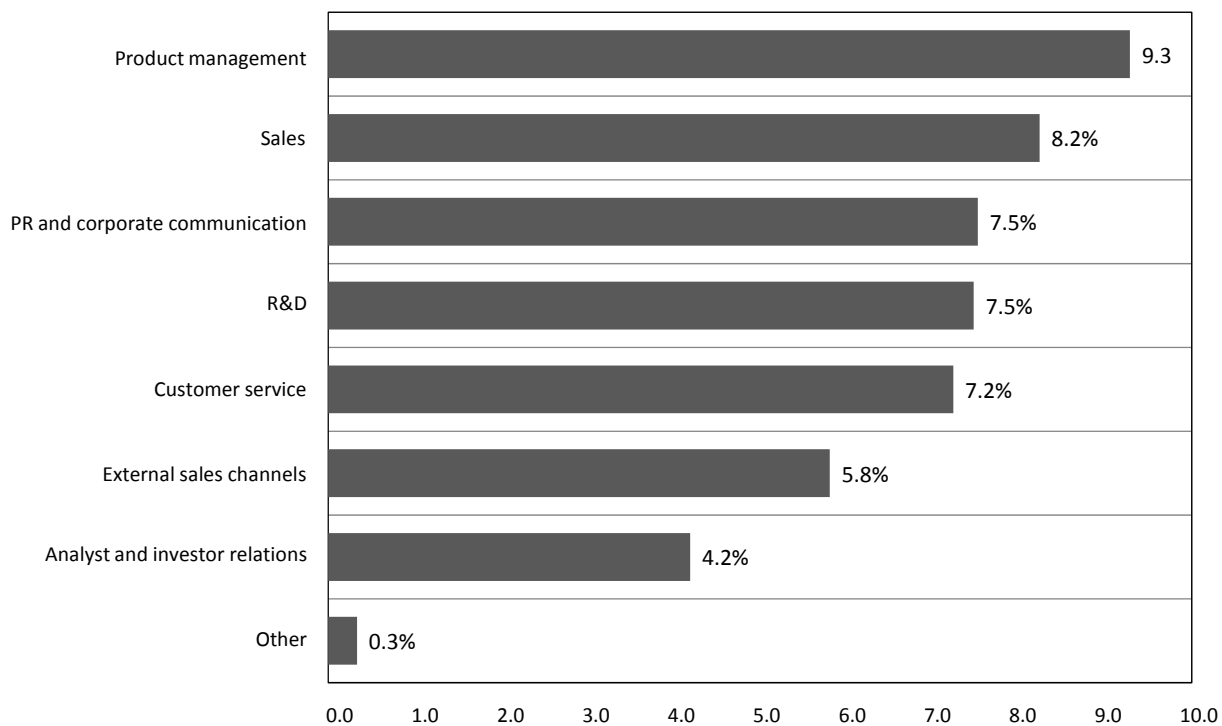


Figure 9 Significance of Improved Cooperation with Other Company Areas (on a scale of 1 = “not very important” to 10 = “very important”, average values, based on 21 interviews)

Most CEOs knowingly accept that separating marketing and PR/corporate communication very much stands in the way of establishing comprehensive, integrated communication planning across all communication channels. For this reason, barely one third of the CEOs voted in favor of the CMO assuming responsibility for all communication tasks within a company. Most CEOs were undecided or rejected this suggestion for the reasons outlined above.

The “classic” conflict between marketing and sales is also reflected in the interviews. In many companies, marketing and sales feud with each other, with long-term consequences. Instead of partnering together for success in a manner that is both constructive and complementary, the reality paints a very different picture. The reasons here are both economic and cultural:

- **Different time frames:** While sales generally works with time frames of 30–90 days and measures the results quarterly, marketing usually works in cycles of 12–24 months and tracks the success of all activities, projects, and campaigns on an annual basis.
- **Different phases of a customer relationship:** From a sales perspective, the customer interaction and the customer experience focus on customer demand (the intention to purchase) and its immediate fulfillment (conversion) – following the concept of the brand funnel. From a marketing perspective, the customer experience begins with a level of attention (supported brand awareness) and the formation of opinions on a level that the “products and solutions are considered from a customer’s perspective.” (Strauß 2008)

- **Differences in culture and socialization:** The interviews also hint at considerable cultural differences: While sales works in a “results-oriented” manner in the sense of revenue or deals, marketing continues to be regarded as a creative area. Sales employees achieve success through deals and signed contracts. The typical sales employee regards everything else as “bells and whistles.” Marketing employees, on the other hand, focus on programs and branding in the longer term – more in the sense of medium-term, more indirect revenue streams (except in the area of consumer goods manufacturers) and therefore without any transaction-oriented success.
- **No clear distribution of roles or tasks:** Both marketing and sales lay claim to important decisions in the sales process. Time and time again, there is a conflict between marketing, which wants to retain contribution margins and prices, and sales, which, to a greater extent, wants generous discounts in order to achieve target revenues. Who should make the final decision?
- **No integrated processes across marketing and sales:** The larger the organization, the more these two functions confront each other in a competitive situation – in vying for budgets and a reputation as a driving force for all market activities and sales successes. In many cases, the respective roles and responsibilities are inadequately defined, for example, in relation to the matter of who should be the owner of and driving force behind all customer information and analyses (known as “customer insights”). Similarly, opinions are divided on the issue of who should have control over the strategy for market cultivation.
- **Different and mutually incompatible KPIs and governing factors:** While marketing looks at higher, aggregated target figures, sales success is based on short-term-oriented metrics such as revenue and deals. The interviews and discussions within the CMO community show that this is the status quo in most industries – noteworthy exceptions include manufacturers of consumer goods (fast-moving consumer goods), where marketing is also measured in terms of sales and revenue streams.
- **Period of market cultivation:** Consequently, there is a similar disconnect in relation to the basic approach to market cultivation. While sales pursues a more tactical approach oriented towards revenue streams, marketing focuses on the penetration of less strategic content (known as “key strategic messages”).
- **Microscopic versus macroscopic customer relationships and experiences:** CMOs belittle statements made by sales colleagues and supported by one-off customer experiences and opinions (for example, “My customer xy told me...”). Sales, on the other hand, frequently consider marketing to be completely detached from any customer or market reality.
- **Semantic differences:** Another phenomenon confirmed in these interviews is that sales and marketing speak a different language. In sales, for example, a lead is a specific interest expressed by a potential customer in a particular product. Marketing, however, would count the download of a study from the Web as a lead. Worse still is the fact that some marketing and sales departments almost never speak to each other. A lack of shared processes, a common language, and open conversation give rise to misunderstandings and destructive conflicts. For example, marketers and sellers argue about who is responsible for leads when they are actually talking about something completely different.

From a company’s perspective, constructive cooperation among all functions is necessary to ensure the best possible implementation of business objectives. Cooperation between the rivaling teams from sales and marketing is particularly essential here. Even though the CEOs surveyed see the greatest potential for conflict here, they also see an opportunity to significantly increase sales through better orchestrated market cultivation.

## 4. The CMO's New Image: A Surefire Contribution to the "Bottom Line"?

When asked about their particular causes for complaint, those most critical of marketing at the executive level will cite a lack of objective data on the success of marketing activities as one of their main criticisms. When asked whether the CMO provides sufficient information about the return on investment, more than two thirds regularly answer "no." Most CEOs and managing directors are aware of the significant contributions made by CMOs to a company's success. At the same time, however, and on account of inadequate comprehensive measurability of all marketing activities, interviews show that a measurable contribution is seen as one of the greatest challenges and is therefore revised. The interviews also show that, for most CEOs, the marketing function is vital (Figure 10). However, their positive view is based on a gut feeling rather than objectively provable KPIs that have been aligned with business planning and the overall business strategy. If we combine the results of these interviews with those of comparable studies, the *paradox of the marketing function* manifests itself:

- **Formal versus perceived significance:** While the marketing function is deemed by most as "*important and strategic*," it is rarely valued as such within enterprises.
- **Hierarchical level versus assessment of performance:** The position of the CMO in the company hierarchy and the CMO's related involvement in strategic corporate decisions correlate positively with the assessment of the performance of this area. Since the marketing function is not usually ranked at the top level, both of these indicators currently still tend to be rather low.
- **Budgets versus the transparency of planning and activities:** High budget expenditure in marketing contrasts with relatively inadequate transparency with regard to alignment with strategic goals at the planning stage and the stringency of the activities derived from these goals. In most companies, there is lack of context. From the CEO's perspective, the link between tracked KPIs and a company's success is not very insightful and hard to understand. Better differentiation during marketing planning and when tracking all marketing activities based on key KPIs is the *conditio sine qua non* for the success and ultimately the reputation of the CMO and his or her organization. The following sufficient condition applies here: Marketing's image will improve only if a CMO manages to document and effectively communicate this success at the board level (also known as "C" level).

When considering the professional skills and characteristics that a CMO should have now and in the future, requirements such as a "strong sense of business" and "long-term strategic vision" are at the very top of the wish list. Today, classic competencies such as "communication" and "success with advertising campaigns" or "creativity" fade into the background. The new image of a CMO is that of a management generalist with special knowledge concerning the proximity of all corporate activities, interactions, and presence to the desired target groups ("*customer advocate*") and marketing, particularly using innovative IT and online solutions. The CMO's strengths lie in strategic planning, business development, and general management, including the readiness and ability to deliver "*hard data*" on the "*return on marketing*." What puts the CMO in a position to do so is, among other things, a systematically planned and implemented marketing planning strategy, which serves as a basis not only for executing and achieving announced targets in the future but also for in-house, content-driven communication with other functional areas and executive colleagues. One of the CEOs surveyed put it bluntly: "*If they cannot measure it, I cannot manage it.*"

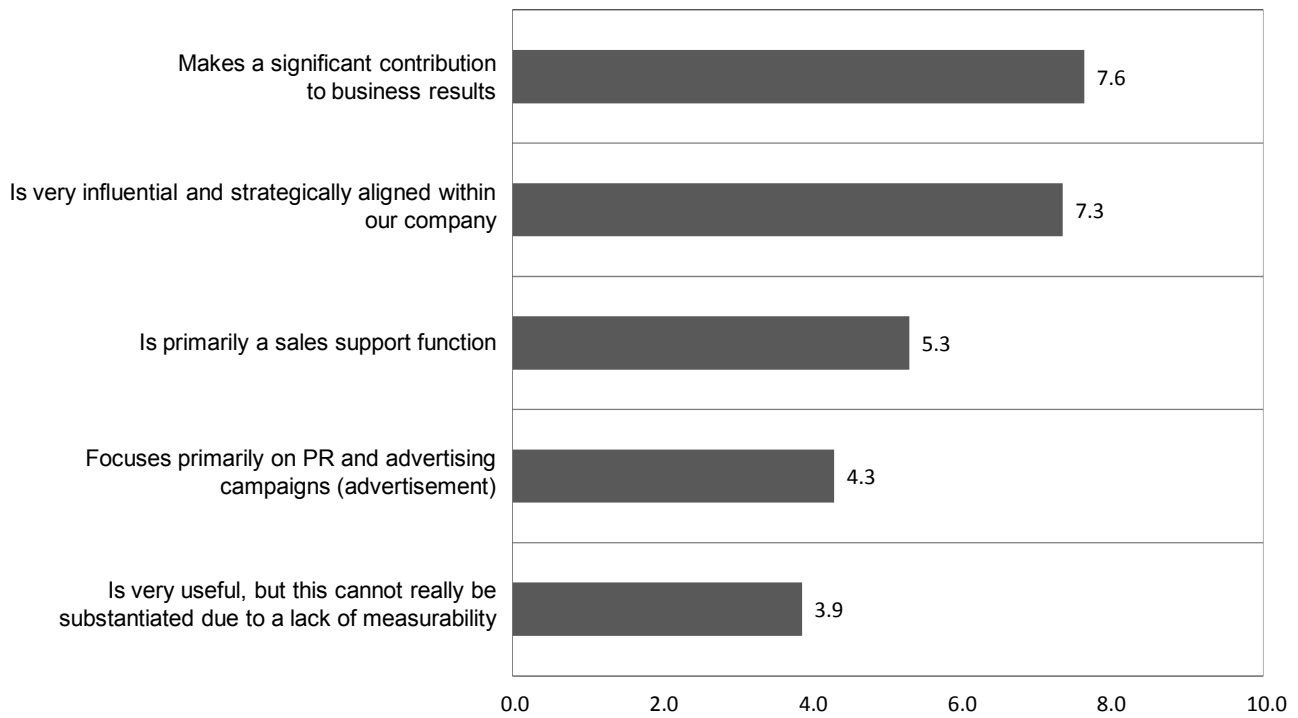


Figure 10 Contribution by the CMO and His or Her Organization to a Company’s Success (on a scale of 1 = “a little relevant” to 10 = “wholly relevant”, average values, based on 21 interviews)

## E. SUCCESS FACTORS AND BUILDING BLOCKS FOR FUTURE CMOS

The interviews have identified the following overarching guiding principles and success factors for the work of the CMO and his or her key areas:

- **Marketing management skills (interdisciplinarity)**  
For the CMO, the efficient use of every potential primarily requires a high level of interdisciplinarity across campaigns and projects. Increasingly, functional boundaries and silos between the traditional marketing area, the dialog marketing area, and a separate online marketing area are proving to be counterproductive. The goal must be to use interdisciplinary projects to orchestrate teamwork both horizontally (advertiser – agency – production) and vertically (traditional marketing – dialog marketing – online marketing). Increasingly, not only the employees involved but also the relevant CMO requires a combination of marketing and management competencies.
- **Value creation and profit orientation**  
“Hard” financial key figures, which are part and parcel of a company’s success, and are aligned with longer-term business planning, are always central to all medium-term tasks performed by marketing managers. For this reason, marketing must add real, measurable value and make a transparent contribution to the overall business value.
- **Value chain integration and interlinking**  
Successful CMOs focus on implementing an integrated marketing approach across different functional areas. However, integration across the entire value chain is not just restricted to internal processes. It also connects, as much as possible, external business partners (for example, agencies and trading partners) via a network. Consistent implementation and thinking along the lines of Marketing 2.0 concepts abstract from suboptimal departmental and traditional functional responsibilities, the old “silo thinking.” Moreover, practically all business areas involve customer interactions – right up to the financial level, for example, when creating invoices that should also contribute in terms of quality, content, and design to the brand values.
- **Combination of core competencies with innovative applications and channels**  
Long-term success largely comes down to combining core competencies in traditional business areas with innovative applications or business models by using Web 2.0 and social media. Most companies surveyed have already succeeded in establishing structures, expertise, markets, and customers in their offline operations. For these companies, it is often a rash and unacceptable recommendation to move predominantly into virtual spheres, possibly while neglecting established core competencies. As expressed by one CEO: *“It’s all in the mix.”*

**Otto Versand** has shown us how to successfully mix classic and online in a mail-order company. Here, key concepts concerning communication through a wide variety of channels are developed further on a channel-specific basis using the company’s own instrumental key concepts.

The interviews and discussions within the CMO community, along with case studies and the authors’ own project experiences, repeatedly show that these guiding principles can be operationalized further by means of a two-level **modular concept** (Figure 11). The content of this concept, its key areas, and the modules are described below as **“Marketing 2.0.”** CMOs can use this concept to free themselves of the need to provide evidence and to gear their own organizations towards incorporating Web 2.0 and social

media into their marketing strategies. The operational modules within this concept represent possible key areas, initiatives, and projects that can be handled alongside day-to-day activities. They can ultimately help CMOs to gradually make the transformation to “marketing of the future.”

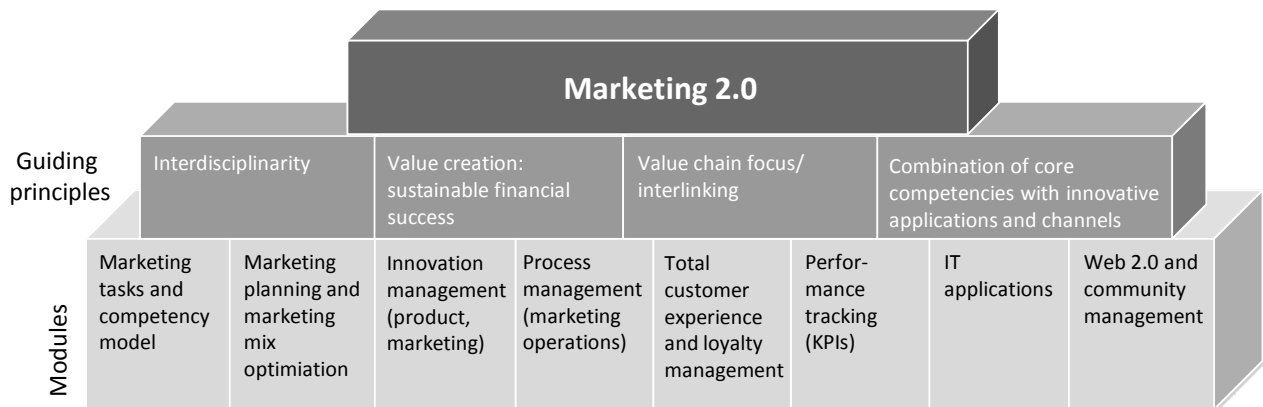


Figure 11 8 Building Blocks for the Future – Marketing 2.0

- **Building Block 1:**  
**Marketing tasks and competency model:** In most cases, human resources needs to revise existing competency catalogs and related job profiles, both of which lay the foundation for rating marketing employees during a regular review of their tasks, responsibilities, and successes. This gives rise to a neutral platform for performance-related remuneration, possible promotions, and the systematic identification of individuals who require further training.
- **Building Block 2:**  
**Marketing planning and marketing mix optimization:** When moving away from activity-focused planning, it is necessary to gradually prioritize planning across several program levels and also to gradually develop it further, right up to the individual activity level. When doing so, specific KPIs must be defined for all levels within marketing planning. Such indicators can then highlight the benefits of certain measures and activities as well as their contribution to the high-level business objective. The goals and results of earlier programs and campaigns can be used gradually to iterate and refine measures and allocated marketing budgets.
- **Building Block 3:**  
**Innovation management:** Approximately three-quarters of all new product launches are flops (Schorer, 2000). In grocery retailing alone, more than 30,000 new products are launched every year – in some months, more than 600 per day. From their panels, the market research organization GfK knows, for instance, that a person purchases an average of 420 different items every year. With that in mind, more products are launched in some periods than consumers can even purchase in a year. Therefore, the goal of marketing – especially in the automotive and consumer goods industry – is to bring successful new products (goods and services) to the market. In addition to generating new and innovative product ideas, orchestrating the launch to market lies at the heart of extensive project management across all affected areas (for example, different sales channels, customer service, or geographies).

■ **Building Block 4:**

**Process management:** Individual activities within the value chain must be investigated as to the extent to which they are actually necessary or efficient in terms of providing a service in marketing. The brown paper method offers an established and effective approach to devising and visualizing the internal business value chain. As part of this method, all primary and supporting process steps – from planning to campaign execution – are compiled on brown paper. This form of visualization facilitates the “plastic” discussion of possible improvements to the process. Supplementing a process analysis with financial key figures, such as process costs, facilitates structured discussions and conclusions about the actual value contribution. Actual examples show that the workshop-led approach has considerable advantages. The “high touch, low tech” approach forces a high degree of interaction and discussion among participants and fosters the formation of a consistent group opinion on the participants’ own companies.

■ **Building Block 5:**

**Total customer experience management and loyalty management:** Total customer experience management focuses on establishing high-quality customer interactions across all points of contact during the entire customer life cycle, which ranges from building relationships with new customers and exchanging services with existing customers to losing customers at the end of the life cycle. Therefore, the “life cycle” of such a total customer experience includes all customer relationships at all levels – from brand awareness before purchasing to replacement purchases or the end-of-life management of products and solutions. Excellent experiences at each stage of the product and customer life cycle hold the key to customer retention.

- Discussions within the CMO community show that – even if several concepts exist in relation to implementing a total customer experience – actual implementation often fails as a result of the following:
- The absence of a standardized view of the customer across all interactions, which could be generated by an integrated CRM system
  - A failure to penetrate the marketing area through the use of other enterprise functions with customer interaction points, for example, sales or service
  - Resistance within the organization, for example, due to nonconformity with existing organizational norms and traditions as well as privileges, taboos, or resistance to external ideas (“not invented here”). Resistance is particularly strong among people who rely primarily on their own experience, who only believe in one way of doing things, or who have an extremely low tolerance for risk. Resistance is strongest in groups when the group members have a strong group identity or feelings of superiority. Systematic change management requires time and usually considerable effort and expense.

■ **Building Block 6:**

**Performance tracking (KPIs):** A key figure system, aligned with marketing planning, is required. The fact that a wide range of key figures can be easily implemented should not hide the fact that the initial determination of the key figure systems is associated with greater effort and resources – for example, the question of which key figure should be used to measure which goal and how these figures can be correctly determined (“*metrics that matter*”). Sample studies in companies show that, due to the high degree of complexity and the usually limited contribution towards providing explanations, defining and tracking 20 different key figures, which is useful at least in theory, usually transitions quickly from an initial phase of enthusiasm to either complete abandonment or a “natural focus” on a few selected key figures. “*Paralysis through analysis*” brings about a natural end over time.



### Building Block 7:

**IT applications:** Marketing information systems and sales information systems (CRM systems) are intended to help decision makers acquire, systematize, analyze, evaluate, and pass on up-to-date, customer-related information. A CRM system should therefore meet certain requirements, such as:

- **User-friendliness:** Current information should be concise, quick, and easy to access. There should be different evaluation options and comprehensible displays. And information required periodically should be made available automatically.
- **Integration and coordination capabilities:** There should be efficient exchange of information between different IT systems, which may be department-specific, for example, financial accounting and merchandising.
- **Efficient:** This includes the total time and effort needed to implement and use an IT system.
- **Secure:** This refers to data availability, protection from unauthorized access, different security levels for different people (authorization concept), and ensuring authenticity, for example, with digital signatures for agreements.
- **Acceptance among system users:** Employees may be afraid of computer-aided control, for example, performance monitoring. Resistance comes from the fear of losing power due to the transparent, reproducible manner in which specialized knowledge is collected and saved (customer knowledge and process knowledge). This trivializes expertise that took years to acquire and makes employees more replaceable, especially in their own eyes.

Interviews and project examples show that the CMO should have, at the very least, a basic understanding of the concepts and possibilities associated with modern marketing application systems. Why? Successful enterprises are characterized by the view that modern IT is an integral part of business models and business potential. They focus on using IT in a variety of ways in every marketing process. This is only possible when the marketing strategy is consistent with the IT strategy. IT planning needs to translate the key points of an IT strategy into concrete measures that are designed to support the marketing strategy. The interaction between the IT strategy and the marketing strategy inspires independent plans, processes, and organizational structures for each company area. Ideally, from the CEO's perspective, this provides consistency not only between the IT strategy and the business strategy but also within the IT strategy and IT structure, and within the business strategy and business structure. The focus here should not be on developing an IT strategy of the absolute highest quality but rather on developing an IT strategy that is perfectly aligned with the specific needs of the processes, organization, and competencies within marketing. A practical approach for aligning the two areas should normally be oriented around concrete questions about key issues such as required competencies and the development concept. However, experience shows that, in most companies, discussions concerning the individual functional capabilities of the applications used far outweigh strategic discussions about processes.

■ **Building Block 8:**

**Web 2.0 and community management:** All content and measures must be implemented on a target group–specific and channel-specific basis, and with 360-degree communication. At the same time, the special features of social communities must be observed and used consistently. One approach is offered, for example, by a target group matrix and the target group–specific layout of all content across all communication channels. Experience from other companies shows that having a “campaign manager” who orchestrates all measures and disciplines is likely to lead to success. At the same time, a “competence” center for social media needs to be established. Furthermore, key concepts need to be continued across various communication channels and interaction points and always implemented in a way that is media-specific and exciting. Social media uses the traditional approach of copying a communicative key concept along with its content and layout and transporting it unchanged across various different channels largely obsolete. Instead, a “solution-oriented approach” is increasingly becoming necessary in order to communicate relevant content in a manner that is cross-media and target group–oriented. Otherwise, a departure from “communicative social media” is imminent.

The modules presented here overlap many times. Their full potential is frequently realized by combining them with other modules and building blocks. For example, a systematic analysis and improvement of all processes is essential for total customer experience management, which in turn requires systematic customer data management in IT applications.

*Don Peppers*, one of the best-known thought leaders in CRM and marketing, gives the following advice to all CMOs: *“Turn your organization and processes upside down. Hire pierced and tattooed 20-year-olds who do not seem to be the best fit for your organization. Furthermore, whenever you plan, always remember the following: The future is already here. It just hasn’t been evenly distributed yet.”* Today more than ever, the success of a CMO is measured by his or her ability to discover the future for his or her company and area of responsibility.

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## G. ACKNOWLEDGMENTS

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## H. THE CMO COMMUNITY – BACKGROUND, ORGANIZATION, AND OBJECTIVES

Formed in 2006 at the initiative of SAP, the CMO community aims to create an independent, exclusive platform for marketing colleagues from different companies and industry segments to share experiences. Its meetings are attended by colleagues from a variety of large firms and cover subjects such as brand management, marketing transformation, behavioral branding, marketing planning, The Future CMO, brand extension and relaunch, the Obama campaign – lessons learned, loyalty management, customer segmentation, Web 2.0, marketing ROI, and organizational development and benchmarking. The extremely positive feedback received regarding the initiative and the interest expressed in further meetings for sharing experiences among colleagues led to rolling out this format globally, with meetings in San Francisco and New York.

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