

THE CHANGING ROLE OF MARKETING FUNCTION AT BUSINESS UNIT LEVEL WITHIN MANUFACTURING COMPANIES

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ABSTRACT

The marketing function has become less visible at a corporate level while it has become an integral part of a business unit in a multi-divisional company. This paper's objective is to understand the role played by the marketing function at a business unit level. The study indicates that some marketing activities are getting folded under a sales function while others move toward a product management function.

INTRODUCTION

In the past few decades the marketplace has changed profoundly, caused by forces such as global competition, new technologies and deregulation. In the business-to-business market on which this study focuses, an increasing number of customers have become global, knowledge-intensive, and more value-conscious. Industrial customers have grown to be a much stronger channel entity armed with the wealth of market information and their growing purchasing power. Suppliers have responded to this shift by adjusting their marketing strategy, their organizational structures and business processes.

Such changes are characterized by: a. wider adoption of market-orientation as a guiding principle; b. the dispersion of marketing activities throughout an enterprise; c. shift of most marketing activities to business units from corporate marketing; d. many of marketing activities are carried out by the sales organization; and e. diminishing role of corporate marketing (Deshpande & Farley 1999; Piercy 1998; Webster 1992).

This paper focuses on the role played by a marketing function at a business unit level in multi-divisional companies within the business-to-business sector. It studies the status of business unit marketing, as opposed to corporate marketing. Our understanding is fragmented on this subject; hence there is a need to further probe into the dynamics of the marketing function at the business unit level.

BACKGROUND

Workman, Homburg and Gruner (1998) consider the topic of the marketing organization from two different perspectives: a 'functional group perspective' that focuses on marketing as a distinct organizational entity; and an 'activity-based perspective' that emphasizes activities traditionally considered marketing and sales activities. Most definitions of marketing, including the one defined by the American Marketing Association, use the activity-based perspective (Bagozzi 1975). This paper uses the activity-based perspective, because it is critical for the analysis of the roles of the marketing function in view of the dispersed marketing activities (Piercy 1998). The scope of marketing activities varies (Hopkins & Bailey 1971; Piercy 1986). This paper adopts the list defined by Tull's work (1991). It includes all marketing activities common to those listed in various studies - a common denominator.

Literature indicates that how and how well marketing strategies and marketing activities are carried out are influenced by a number of factors. These factors are market environment (Nonaka & Nicosia 1979; Weitz & Anderson 1981), strategy (Miles & Snow 1978; Walker & Ruekert 1987; Vorhies & Morgan 2003), and structural factors (Ruekert, Walker & Roering 1985).

Along with a set of these factors, another critical factor that has influenced marketing implementation is market-orientation. Market-orientation has become one of the key guiding principles of modern corporations, due in large part to the intense competitive pressures created by new technologies, global competition, and deregulations (Kohli & Jaworski 1990). Unlike the oft-touted 'marketing concept' that was not widely adopted by companies in the years past (McNamara 1972), the market-orientation is successfully operationalized with three clear components: market intelligence capture; market intelligence dissemination; and action based on the intelligence (Jaworski & Kohli 1993). Its operational definition has opened the doors to its wider acceptance by many companies.

Market-orientation means that everyone in an enterprise, regardless of their functional home, must look at their roles and responsibilities by looking inward from outside. As the philosophy of the market-orientation permeates throughout an enterprise, marketing has become less visible as a function (Deshpande & Farley 1999; Piercy 1998; Webster 1992). This is

because many activities that were traditionally considered as marketing are now performed in many cases by organizations that do not bear the marketing name. Today more activity- or value-descriptive names are often used in lieu of marketing name such as trade marketing for channel management in the industrial companies and yield management for pricing in the airline industry. Among the reasons cited for such dispersion of marketing activities are efficiency, span of control limitations, economy, and tradition (Narver and Slater, 1990).

On the other hand, it could be argued that marketing's visibility has increased as a strategic paradigm, as the importance of the market-orientated philosophy has been recognized for survival and growth in the highly competitive global market (Jaworski & Kohli 1993). Thus, there are two opposite cross-currents. On one hand, marketing has become a more strategic function because of the need for market-orientation for survival and growth. On the other hand, marketing activities are dispersed, which result in the reduced visibility of the marketing function. Given the cross-currents, hence, the marketing function's status remains an unresolved issue.

EXPLORATORY STUDY

To probe into the status of the marketing function, especially, at the business unit level, the author conducted in-depth interviews with ten marketing executives. Four were interviewed in person and the remaining six were interviewed over the phone in the winter and spring of 2003. The marketing executives interviewed are all heads of marketing or sales-and-marketing each in one of the business units of multi-division companies. Nine of them hold vice president positions while one a director position. Four interviewees are in the fortune 1000 corporations and the other six are in small-to-mid-size corporations below the Fortune 1000 ranking. The interviews lasted anywhere from one half hour to an hour, using a semi-structured interview guide.

All ten interviewees are with manufacturing companies that range from diversified machinery to industrial automation to medical packaging. Due to the nature of the exploratory study, the sampling was a convenience sample based on accessibility to marketing executives. Twenty-three firms were initially contacted from the Hoover's Online Corporate database with diverse firm size and sub-sectors evenly spread within the manufacturing industry. Ten of the 23 firms contacted accepted the author's request to interview their marketing executives. The manufacturing industry was selected primarily because a few past studies which are used as a benchmark for this study used it (Piercy 1986; Tull, et. al. 1991).

PROPOSITIONS ON BUSINESS UNIT MARKETING ORGANIZATION

Literature indicates that a business unit marketing function is in large part responsible for marketing operations such as sales, product marketing, pricing, distributor management, and customer service operations whereas a corporate marketing function performs marketing services such as marketing research and institutional advertising and some marketing planning (Tull, et. al. 1991). The corporate marketing's role is weak because of its lack of direct control over the marketing operations and its resources at the business unit level (Piercy 1986). It was found that the corporate marketing's responsibilities were largely participative and shared. On the other hand, a business level marketing function is in large part deeply embedded in the business unit operations, particularly, in the sales function (Tull, et. al. 1991).

In order to understand this phenomenon, one needs to look at two developments that have directly impacted both marketing and sales functions. The first development is a shift from transaction to relationship-based sales approach. The second development is a change in the sales organization to meet its customer's needs to interface with a single sales channel. This has resulted in the wide adoption of a key account management system (KAM) (Homburg, et. al. 2002; McDonald, et. al. 1997).

The relationship-based sales approach resulted from increasing needs of business and industrial customers who desire to streamline and better manage their supply chain. This reflects customer's needs to do collaborative activities such as product designing, logistics and joint strategy planning as a supply chain partner rather than an ad-hoc transaction-based relationship (Coviello, et. al. 2002; Day & Montgomery 1999). As a result, the business unit sales function has been required to embrace an overarching goal of customer retention. Internally this approach requires the sales function to more closely work with marketing. Now there is a mandate to develop solutions tailored to the customer's requirements and to develop a longer-term collaborative relationship. This mind-set forces the sales function to replace its ingrained culture of 'meeting a revenue target this period' – a short-termism. Hence, the marketing function plays a more visible role now, especially, in terms of product marketing (Moorman & Rust 1999).

The concept of key account management (KAM), the second recent development, has accorded additional power to the sales function as a 'lead organization' to integrate and marshal all internal resources to meet its accounts' needs holistically. One vice president of sales & marketing of a measurement instrument manufacturer said in his interview:

"I headed a national sales organization in our division till a few years ago. Then our GM decided to place a marketing group in my national sales group. Now, the product marketing and ad/promo groups really help sales folks, for they are inside the sales umbrella. It works really well."

Seven of the ten executives interviewed indicated their business unit marketing function (primarily, marketing services such as advertising, promotion and product support) is a part of the sales function. The executive who made the above remark thinks the marketing now (finally) supports the sales function well. Here, an implication is the marketing function loses its visibility relative to other functions. With it, the "marketing-oriented" philosophical underpinning wanes. Hence,

Proposition 1: The marketing function becomes subordinate to the sales function which results in a weakened marketing-oriented culture at the business unit level.

One of the questions at this point is how the marketing and sales functions can collaborate to find a common ground to the benefit of both their business unit and their customers. A less-than-cooperative relationship may well diminish the marketing's contribution to sales not only for the long-term customer relationship development but also for the short-term sales performance.

As shown above, Proposition 1 is based on the premise that the marketing and sales functions are not compatible with each other due to their respective orientations. The marketing function looks at the market through a longer and strategic lens while the sales function subscribes to a shorter time horizon and more operational views (Carpenter 1992; Cespedes 1993). To overcome such a conflicting relationship, a number of integration factors have been researched, including the structural factors (e.g., formalization, decentralization, participation) (Ruekert & Walker 1987), managerial factors (e.g., background of personnel, joint rewards, value integration) (Song, et.al. 1997), and operational factors such as early involvement (Dewsnap & Jobber 2000). Bearing out one of the factors, in this case, job rotation to expand employee's background, a senior vice president of sales and marketing at UPS expressed in a recent trade publication interview (Callahan 2003):

"We like to rotate people into various jobs. It's truly advantageous to have various experiences. Our existing sales people come from a variety of backgrounds; same thing for marketing. I do think there was an us-versus-them mentality that used to exist [between marketing and sales]. We've been successful in trying to improve the overall atmosphere."

One interviewee in the author's exploratory study echoed this viewpoint:

"Our division sales and marketing groups respect each other's opinion. For example, the proposal development teams [to respond to an RFP] are now cross-functional including not only engineering people and sales reps [that used to be the norm] but also product marketing people. They [i.e., product marketing] add tremendous value to our proposals, since they analyze RFPs from different angles."

In this case, an operational variable for functional integration is 'participation' of people from different functions on a cross-functional team (Webber 2002). These factors point to a successful integration between the marketing and sales functions. Hence,

Proposition 2: The marketing and sales functions can be effectively integrated at a business unit level by mobilizing one or a combination of various integration tools such as the structural, managerial, and/or operational tools.

A closer look at the embedding of marketing into the sales function indicates that not all marketing activities become embedded in the sales function, rather various marketing activities are embedded in the sales function to a differing extent. Further, some marketing activities show tendency to move toward other functions such as R&D or product management.

As seen in the discussion that led up to Proposition 1, the exploratory study indicates consistently that business unit level marketing services such as marketing research, product advertising, trade marketing, and activities for sales lead generation

(e.g., trade shows) are fully integrated in the business unit sales function. This is partially explained by the fact that the customer relationship management thrusts necessitate such coordination (Day & Montgomery 1999). Hence,

Proposition 3: The marketing service function such as marketing research, product advertising, and trade marketing are fully integrated into the sales function at the business unit level.

Unlike the marketing service activities discussed for Proposition 3, the exploratory study indicates that the product management function remains relatively independent of the sales function. Nine of the ten companies interviewed indicated that their product management groups are independent of their sales function, though four of the nine product management groups are part of either an engineering or R&D function. One executive who was interviewed pointed out:

“Our strength is product engineering, and we’ve been setting ourselves apart from others with our cutting-edge technology. Our product-marketing group provides pre-sales support, front-end consulting services, and systems architecture development. Expertise on these areas must come from product marketing folks who need to work closely with product engineers on a daily basis.”

Such a statement is not surprising, given the importance of technology in the manufacturing industry. Just as in Proposition 3, in fact, the customer relationship paradigm makes it imperative to provide the highest level of technical expertise to customers. This is only possible when the product management group is closely aligned with product engineering and/or R&D function rather than aligning itself with the sales function. Hence,

Proposition 4: Product management function remains independent of the sales function at a business unit level.

Customer service function has been receiving more than its share of attention recently as a strategic area within marketing, because it is one of the critical pieces to realize the true customer relationship strategy. In fact, ‘apostles’ can be created out of the customers to whom disservice occurred when a disservice recovery was performed superbly (Jones & Sasser, 1995).

Two streams of thought were expressed in the exploratory study on the location of the customer service function at the business unit level. Four executives interviewed supported the customer service function to be part of the sales function. The reason is customer service provides both pre-sales and post-sales support to compliment the sales activities. Three executives, on the other hand, expressed the customer service function to be attached, in the near future if not now, to the product management function, because its activities are highly technical such as remote diagnostic of scheduled maintenance, trouble shooting for a machine failure, and the like.

It could be hypothesized that where a customer service function should be located depends on a number of factors such as complexity of the technology, the nature of customer service strategy, and its specific activities. Hence,

Proposition 5: Customer service function at the business unit level moves toward either product management, if its work is highly technical or the sales function, if the work is less technical while other factors such as customer service strategy, the nature of products and services are held constant.

As shown in the discussion that led to Proposition 3 on the marketing service activities, channel management activities are increasingly folded into the sales function. This is driven in part by the sales function’s desire to coordinate different sales channels seamlessly. The exploratory study found a consensus on this point:

“As soon as our GM agrees to strategic partnership contracts, the channel management involves a lot of operational details. I think it makes the best sense for the sales group to do the job [since it deals with customers]. Distributors certainly are our key customers.”

As this interviewee alluded to, front-end of the channel relationship development and perhaps the performance assessment of channel partners may need to be carried out by the general management of a business unit, most likely with the assistance of marketing management. On the other hand, operational coordination rests on the sales function. Hence,

Proposition 6: At a business unit level, the strategic aspects of channel management such as partnership development and partner’s performance assessment are carried out by the highest level management of a business unit while the operational coordination with channel partners rests on the sales function.

A remaining key marketing activity is pricing. The marketing function is found to have played the least role in pricing decisions despite a call made by marketing theories (Kent Monroe et al; CME references).

Four interviewees in the exploratory study indicated their pricing decision is headed by a finance function while another four of them said the business unit general management plus a sales function are responsible for it. In pricing, marketing's contribution is competitive information in all the eight cases. The remaining two executives indicated that the sales and marketing functions jointly make a pricing decision. There does not seem to be a clear pattern, thus no proposition is put forth here, as to the location of pricing decision-making in this exploratory study.

MANAGERIAL IMPLICATION

Despite the exploratory nature of the current study, a few managerial implications have emerged at the business unit level of business-to-business companies. First, as the marketing activities are dispersed and move closer to functions such as sales and product management, it is imperative for the senior management of a business unit to ensure that the marketing and other functions be integrated effectively so that the marketing's contribution can be optimized.

Secondly, it is critical for the marketing function's integrity to be preserved when the function is folded under the sales function. In fact, the sales function needs the marketing perspective and expects its clear input for the long-term customer relationship development. The marketing service and channel management activities are likely to be embedded into the sales function. People outside the marketing function often perceive the marketing function to encompass only the marketing service activities. Hence, the marketing visibility diminishes to the detriment of all parties. Ironically, the author contends the sales function is the one that would lose the most. The sales function needs to use a long-term, strategic approach in today's highly competitive, dynamic marketplace whose expertise resides in the marketing function.

The integrity of the marketing function could be preserved by the strong market-orientation culture nurtured by executive leadership at a business unit level. The marketing and sales functions could be effectively integrated through one or a combination of the integration factors as shown earlier. The stronger marketing function benefits not only the business unit but also the company on the whole.

CONCLUSIONS

As in any other exploratory study, this study has its limitations. A small sample of convenient samples was used; and its analysis is descriptive, rather than theoretical. The effects of contributing factors to the marketing activities dispersion need to be explored. Future studies need to address a number of other questions: Is the role of the marketing function different in industries other than the manufacturing industry at the business unit level? Under what conditions do the integration factors work well for the marketing versus sales versus product versus customer service functions? Is the movement of certain marketing activities to other functions such as product management dependent on external, situational factors such as company size, stage of the organizational evolution to be a truly independent business unit, and other factors?

The net contribution of this study is to help understand how marketing activities are dispersed at the business unit level. This study also suggests that the phenomenon of marketing activities dispersion at the business unit level does not happen at individual activity level; rather it happens at the level of clusters of marketing activities. The dispersion happens, for example, to marketing services, which include activities such as marketing research, advertising, and sales promotion. These findings in this study lays a foundation for future research, which would yield valuable knowledge to practitioners as to how best to manage the marketing function and to researchers as to potential development of marketing organizational constructs at the business unit level.

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