Marketing and the Recession: Is Marketing the Solution?

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Abstract

With any downturn comes an air of uncertainty, yet amid the sea of ambiguity there are also several certainties; jobs will be lost; and budgets will be cut. The intangibility of marketing in terms of its value contribution and the flexibility of resource commitments involved often means that marketing is first in line with cuts. Such responses, we argue, are counterproductive as realignment with customer needs is central for survival and success particularly in recessionary environments.

Just as companies readjust during recessions so too do customers who typically re-evaluate their priorities, reconsider their assumptions and values and adjust their spending habits. The recession has given birth to a new breed of consumer; shifting from the pre-recession trend of *mindless* consumption to a more deliberate and careful trend of *mindful* consumption. As consumer confidence plummets and customer expectations rise, companies need to get closer to the customer to establish changes in the profitability of different segments and to reprioritise them accordingly, and to determine how their most valuable customers can be effectively reached.

Perseverance with the sales orientation and financial dominance which predominated the market share logic and operational efficiency maxim in growth cycles, frequently contributes to further distance companies from their customers. In cutting marketing budgets as part of retrenchment efforts during downturns, companies cut down on the one function whose purpose is to get the company closer to the customer. Marketers' own failure to provide clear business cases based on explicit and tangible measures of marketing impact on profitability, hampers its effectiveness. Much of marketing spend has also been attributed to sales due to a blurring of the distinction between marketing and sales. This is often reflected in an increasing emphasis on sales programmes (often called marketing) that appear to contribute more directly to revenue generation (e.g., customer incentives and sales promotions) but fail to recognise and maximise sustainable, medium and long term oriented customer value propositions (see Webster et al., 2005)

Closely related to this marketing mis-orientation is the lack of guidance for decision making provided by typically used marketing metrics or lack of use of marketing metrics. Specifically, a key issue is the requirement for metrics that can help to distinguish between the effects of both long and short term expenditures. Without such metrics it is difficult to shift the perception of marketing from a short term expense to a strategic investment.

In this paper we argue that customer centricity can help firms pave their way out of the precarious situation companies have found themselves in during the recession. That this focus on customer centricity moves the marketing department and the customer to the centre of the organisations. This paper outlines key propositions and identifies the research requirements that can help address the current gap in the use of marketing metrics and the role that marketing currently plays vis-à-vis placing the customer at the heart of organizational activities.

Moving from a Financial Focus

One of the main challenges for marketing in this era is to overcome the financial orientation that permeates firms. For many firms, the Anglo-Saxon business model with its finance orientation and its short term focus on the bottom line, shareholder value and share price predominates (Fellenz and Brady, 2010). Nowhere has this been more manifestly evident than in the banking industry where a short sighted focus on boosting share prices resulted in money being lent to people who could never afford to repay. During the boom an emphasis on short term financial growth and profit maximisation was ubiquitous, and marketing as the central conduit for the voice of the customer virtually disappeared. The voice of the customer was often translated through financial measures that reflect current customer behaviour without any attempt to recognise the future development of customer needs and preferences. With the dominance of finance and accounting translating customer information as inputs to corporate decision making (see Gronroos, 2006), marketing departments were often reduced to sales departments concerned with the short term benefits of price cuts and sales promotions. It can be argued that the resulting lack of customer centricity and the delays in recognising fundamental shifts in customer needs and preferences contributed to the hardship many firms are experiencing.

If marketing is to replace the financial orientation and to become a strategic integrative function of the organisation, marketers must begin speaking the same language (finance) as the rest of the company. Therefore marketing metrics must include financial yet must simultaneously reflect the primacy of customer value creation (Fellenz and Brady, 2010).

Sales Orientation and the Impact of the Recession

Companies' pre-recession monopoly over power in the customer-firm relationship has been eroded by failures in the financial market and taxpayer bailouts which have led to consumer distrust and scepticism (Quelch and Jocz, 2009). Perseverance with the sales orientation which predominated during the boom times will only serve to further distance companies from the customers. 'In most developed economies pre-recession consumer behaviour was the product of more than 15 years of uninterrupted prosperity' (Flatters and Willmott, 2009:106). Consumers engaged in seemingly limitless spending, giving rise to the term 'McLuxury' generation, in reference to consumers' unprecedented desires to binge and 'supersize'. 'Marketers abetted consumers in defining the good life in material terms and urging them to live beyond their means' (Quelch and Jocz, 2009:54).

Considering the severity of the current recession it is likely that the trends and consumption patterns that consumers develop now may well perpetuate beyond the recession as consumers leave behind the pre-recession trend of mindless consumption adopting a more conservative and less conspicuous trend of mindful consumption. In fact, Flatters and Willmott (2009) note how a disdain for excessive consumption and a trend toward discretionary thrift which actually arose toward the end of the pre-recession boom, is now gathering increased

momentum during the recession. Discretionary thrift, aligned with more traditional and wholesome values and a shift away from excessive consumption and waste has become more visible and acceptable in the recession (ibid).

The turn away from conspicuous spending could be one of the more significant trends in terms of its implications for marketers as we enter a period which Grossberg (2009) refers to as *'austerity marketing'* – marketing to people who do not want to spend. This shift toward empathy and respect (Gerzema, 2009), a long way from many businesses' attitude during the boom times with the focusing on selling and profit maximisation.

The Role of Marketing: Challenges for Marketers

Marketing is operating in an increasingly globalised, networked world, faced with the most sophisticated, technologically adept, informed and empowered customers ever who are increasingly in control. Yet, in spite of these acutely contemporary business challenges, marketing ostensibly lags behind. As pointed out by Gronroos (2006) the American Marketing Association's (AMA) new definition of marketing is very much rooted in the past, seeing marketing as one *organisational function* that *delivers value to customers*. First and foremost, marketing cannot operate in isolation as the responsibility of a single department or as separated into one function, but rather requires a customer focus to permeate the entire organisation (Gronroos, 2006) with the organisation made up of what Gummesson (2007; 1991) refers to as full time and part time marketers.

Evidence suggests that marketing has been losing its credibility (Cassidy et al., 2005) and the influence of marketing on top management has waned considerably (Webster et al., 2005). Over half of the CEOs interviewed in a European study harboured a negative impression of marketers, questioning their business acumen, saying marketers *'don't think like businessmen'* and act in a way *'more akin to a recalcitrant child than an adult'* (Cassidy et al., 2005:9). According to a report by McGovern and Moon, (2007) less than 10 percent of boards' time is allocated to discussing marketing and customer related issues (cited by Gronroos, 2006). Yet, while the marketing function's importance may have declined, the importance of marketing as a mindset and an emphasis on customer focus are considered fundamental within firms. If marketing is about putting customers first, the question is where has it gone wrong. Webster et al. (2005) note that the much discussed trend of marketing as the integrative function to help bridge the functional silos within firms, reflecting a Kotlerian notion of marketing as necessitating a total company effort, has been surpassed by a trend toward disintegration with many elements of the central marketing function being *'centrifuged outward and embedded in functions…that are closer to customers'* (2005:35). They present three reasons for this trend toward disintegration, chief amongst which are marketing's failure to measure its contribution, and the apparent incongruity of long term visions and the financial emphasis on short term revenues, profits and stock price which predominate in firms, particularly during the boom. Marketing's effectiveness is seriously impaired by the rigid nature of short term measures such as quarterly reports which tend to dictate corporate decision making to the detriment of customer focus and strategic thinking.

Understanding the Role of Marketing Metrics

Marketing's failure to measure its impact in terms of the firm's bottom line hampers its effectiveness and leads to a blurring of the distinction between marketing and sales. The requirement, for better metrics which distinguish between the effects of both long and short

term expenditures. While point of purchase promotions provide tangible, measurable results, '*marketing success should be measured by long term trends in customer awareness and attitudes, customer satisfaction and retention, brand and customer loyalty'* etc. (ibid.:40). Equally, there is a need for marketers to shift the perception of marketing as a short term expense to marketing expenditures as investments. As long as marketing is viewed as a disposable expense, the short term perspective will persist, however, the view of marketing as an investment introduces the long term perspective which is essential for demonstrating the long term benefits of marketing activities (Kotler et al., 2009). Marketing metrics must drive the company forward and successfully integrate all the departments towards the customer.

Now more than ever before, it is essential that firms break out from their inhibiting financial and sales orientation and get closer to the customer. While the standard (financial) reaction is to contain costs by making cut backs and firing staff and while this is in some part essential, it can also prove dangerous. As markets change, problems arise, but so too do opportunities. One of the key tasks for marketers in recessionary times is to prevent service organisations falling back on traditional cost cutting and the efficiency oriented retrenchment process and focus on customers. In such turbulent times marketers need to know how customers are redefining value as expectations rise during a recession. According to Brady and Fellenz (2010:3), '*customer centricity provides the best means to develop and grow business by staying close to and understanding customer's needs and wants'*.

Customer Centricity the Marketing Solution

We are not suggesting that marketing in its current form – the effectiveness of which is eroded by the short termist financial orientation which prevails – will lead companies out of recession, but rather that customer centricity has become the marketing imperative. It has long been acknowledged that it is the customer who determines the success of a business, and now it is time for companies to emulate their hollow mission statements and shift their focus from profit maximisation to focusing on fulfilling customer needs. Consequently, there is a need to focus on marketing metrics to make tangible the intangible outputs of customer centricity.We argue for the need for not just marketing departments but for marketing organisations with a customer focus permeating the company. While '*customer centricity is easy to commit to…* (it is)*… difficult to create and sustain…* and*… entails an enormous range of hard to measure variable's* (Hart, 1999:7).

One of the main challenges in implementing customer centricity lies with the massive investment required. Adopting a customer centric approach does not occur overnight; rather it requires a total overhaul of corporate culture, organizational structure, systems and metrics (Gummesson 2008, Shah et al., 2006). Adopting a customer centric orientation, is not about being all things to all people but is about segmenting and selectively targeting profitable groups; identifying and nurturing valuable customers and discouraging profit draining price-elastic customers who are fickle and cost a lot to serve (Day, 1998)

The concept of customer centricity itself is certainly not a new one, having been identified over half a decade ago, its origins can be traced back to Drucker's (1954) seminal work which states that "*it is the customer who determines what a business is*". Yet, as Gummesson (2008) points out, we are still yet to see a wholehearted implementation of the concept, with firms in recent times adopting a more financially based, product-centric view. The widespread failure of companies to implement customer centricity raises many questions and

issues regarding the characteristics of the concept itself and its applicability in the modern business world.

With the aforementioned product or company centric view, the focus lies internally on the product or service offered by the company itself, with customers *'almost as an organizational afterthought'* (Johnson and Schultz, 2004:22). Customer centricity, with its relationship orientation placing the customer at the centre of all decisions, and product centricity are polar opposites and as Johnson and Schultz note *"organizing around end customers rather than product verticals runs counter to generations of organizational strategy, compensation structure, and company culture"*.

The cultural structure of the organisation refers to the norms, values and beliefs, which drive the thought process and the behaviour of those within it. The strands of this organisational culture are present in every pore of the organisation, and are thus, often difficult to effect real change upon. Cultural change begets behavioural change and this requires management commitment, persistence and intense communication (Shah et al., 2006).

Hence, there are considerable hardships involved in shifting the corporate culture toward a customer centric view, and such barriers are also present in regard to shifting the structural make-up of the organisation. At the core of customer centricity is the ability to meet customer's needs effectively, and the organizational structure of the firm is a key determinant of this. The isolated functional silos which have characterized the reigning product centric view are simply not responsive enough for a customer centric view. Hence, in the adoption of a customer centricity these structures must be significantly altered and problems ensue because these structures are likely deeply rooted in their processes which are exacerbated by incentive schemes, and hence major disruption is likely (Shah et al., 2006).

As well as the massive overhaul required, fears remain over the concept of customer centricity as a whole. Gummesson (2008) is particularly negative regarding the viability of customer centricity, citing the ability to cast one stakeholder at the heart of operations as unrealistic, not least thanks to the manipulative basis that marketing has long been dogged by. In his critique of customer centricity, Gummesson (2008) also speaks of customer orientation as a *commodity*, whereby the investment in customers becomes a must as more and more firms develop a customer orientation and hence no true competitive advantage is attained. Gummesson's view here portrays customer orientation as a 'qualifying' factor; though its presence ensures the company can compete alongside other firms in the industry, is not a major determinant of success. The inference here is therefore that, through its ubiquity, customer centricity becomes merely a necessary component to just enter the ring, rather than being the sucker punch to outwit the opponents. This assertion is based upon the implicit assumption that customer orientation is uniform across the board, when in effect it is by nature, hugely idiosyncratic. It is this idiosyncratic nature that allows for firms to ascertain and meet customer's diverse needs more effectively and timely than competitors, rather than in some uniform manner, ultimately leading to a primary source of competitive advantage.

With budgets and expenditure tightening in times of recession, certain practices will naturally come under scrutiny as firms seek to steady the ship amid the chaotic external environment they are subjected to. Hence, the ability of any strategies to deliver returns will be of huge importance and it is in this area that major concerns still centre in regard to customer centricity. There is a predominant fear in regard to customer centricity, that though its

implementation is achieved only through great cost, it still provides relatively little contribution to revenue (Gummesson 2008). One of the underlying problems for customer centricity in relation to this is its intangible nature, which as opposed to the product view with its highly defined, transactional approach (Shah et al., 2006), does not allow for the creation of an explicit cause and effect relationship between inputs and outputs. The relationship-oriented approach which customer centricity is based upon instead requires the construction of what Hart (1999:7) refers to as a 'virtual-factory', with often indeterminable outputs. As a consequence, measuring customer centricity's financial impact is often difficult (Shah et al., 2006).

These difficulties in regard to customer centricity, lead to customer centric plans being left dormant as a vacuous line in the mission statement, with customer centricity proving an elusive goal (Shah et al., 2006). The difficulties regarding customer centricity do not disappear upon implementation however as Hart (1999) discusses the forces which erode the customer centricity of the firm. The financial orientation which has dominated the business arena is highlighted again here, with firms painted as slaves to high-growth, short-term earning goals, with this approach leading to the erosion of seemingly well placed intentions regarding customer centric commitment. Organisational failure, in regard to cementing customer centric commitments can have hugely negative consequences for firms, as highlighted by McGovern (2007) who draws attention to the slippery slope firms often encounter, when '*transparent customer centric strategies for delivering value, have evolved into opaque, company-centric strategies for extracting it'* (McGovern, 2007:). Naturally, such tactics only serve to antagonise customers, leading to dissatisfaction and revenue losses.

Conclusion

As customers' behavioural and purchasing patterns go through a period of sustained, and most likely, enduring change, the need to get closer to the customer and involve them in the decision making process has seldom been so critical. At the core of customer centricity is the ability to meet customer's needs effectively, and the organizational structure of the firm is a key determinant of this. If customer centricity is to truly leave the realm of the academic we assert the need to redefine marketing's position in the organisation and restructure the organisation with marketing replacing finance at the apex as the integrative function of the organisation.

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