



Redefining Markets

Insights from the Global C-suite Study – The CMO perspective

IBM Institute for Business Value

This report draws on input from the 5,247 C-suite executives (CxOs) who participated in our latest C-suite Study – the eighteenth in the ongoing series of CxO studies conducted by the IBM Institute for Business Value. We now have data from more than 28,000 interviews stretching back to 2003.

Here, we focus on the perspectives of Chief Marketing Officers (CMOs).

Total number of CMOs interviewed	723
North America	188
Central and South America	77
Western Europe	136
Central and Eastern Europe	82
Middle East and Africa	63
Asia Pacific	98
Japan	79

In the midst of the storm

CMOs think we are at a turning point. Technological advances are disrupting the status quo and bringing huge turmoil in their wake. Industries are converging, and new competitors emerging, with breakneck speed. So how are CMOs steering through the storm?

In the first installment of our latest C-suite Study, we interviewed 5,247 top executives to find out what they believe the future holds and how they're positioning their organizations to prosper in the "age of disruption." This report delves more deeply into the views of the 723 CMOs who contributed to our research – and what the marketing dynamos of the most successful enterprises do differently.

We identified a small group of organizations that have both strong reputations as leading innovators and superb financial track records. The Torchbearers, as we call them, comprise 6 percent of all enterprises represented by our CMO respondents. We also identified a group of organizations that trail behind the rest. Market Followers have much lower market profiles in the opinion of the CMOs who speak for them, and almost all are far less financially successful. They account for 33 percent of our sample.

Comparing the two groups reveals pronounced variations in the way Torchbearer CMOs and Market Follower CMOs behave.¹ Torchbearer CMOs are actively embracing "creative destruction" and enriching the arc of engagement with customers.² They're also striving – like other CMOs – to make their organizations more digitally literate. But they're far better prepared to manage the data explosion and an increasingly complex marketing mandate.

"It's very hard to predict when a disruptive technology will emerge – and what impact it will have."

CMO, Electronics, China

“Industry convergence increases the number of predators and prey.”

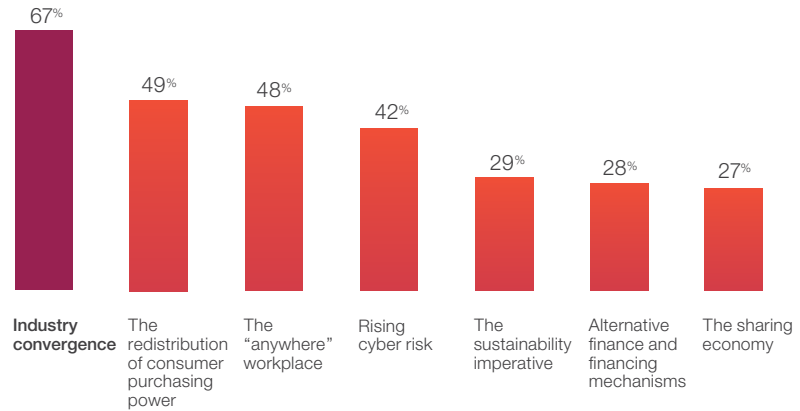
CMO, Banking and Financial Markets, Italy

Convergence, competition, commotion

CMOs everywhere recognize that the barriers between formerly distinct industries are collapsing, as companies in one sector apply their expertise to others – creating new hybrids and overturning traditional taxonomies in the process. This, they say, is the single biggest trend transforming the business arena (see Figure 1). And it’s a very mixed blessing.

Figure 1

Barrier breach: CMOs anticipate much more industry convergence in the next few years

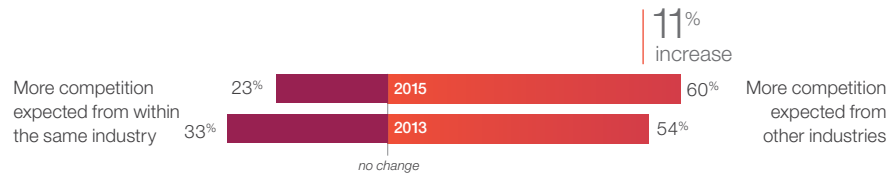


Industry convergence is creating completely new opportunities for growth by shifting the focus from products and services made by solo entities to cross-sector customer experiences. But it's also exacerbating competition, because other enterprises can seize an organization's core business as they expand into adjacent spaces. One company's convergence is another's encroachment.

Hence the fact that CMOs expect even more competition from new rivals in contiguous industries than they did two years ago, when we completed our previous C-suite study (see Figure 2). Indeed, they're more aware of the danger than CxOs in any other role.

Figure 2

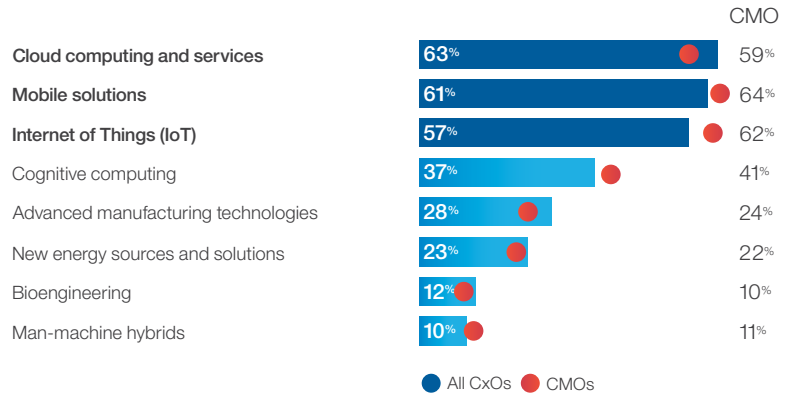
Hostile force: CMOs are worried about outsiders invading their space



What underpins this change in the competitive landscape? CMOs, like other CxOs, point to the disruptive influence of new technologies. They think mobile solutions, the Internet of Things and cloud computing will have a massive impact on their organizations over the next three to five years. However, they're not ignoring cognitive computing or other emerging technologies that could deliver enormous pay-offs (see Figure 3).

Figure 3

Tech transformers: CMOs think three technologies will have a huge impact on their firms



What to do: Embrace creative destruction

In preparing for the future, CMOs are beginning with the big picture: 67 percent intend to reassess their strategic direction, given the technological advances now disrupting the marketplace. “We’ll have to think differently. We can’t be so monolithic; we need to expand our perspective,” the CMO of a British retailer remarked. “Many companies have disappeared because they didn’t know how to reinvent themselves,” the CMO of a Spanish insurer added. And any enterprise that wants to reinvent itself requires a master plan.

But there are significant differences in the strategies Torchbearer CMOs and Market Follower CMOs are pursuing. For a start, Torchbearer CMOs are considerably more likely to be reviewing the way they go to market. Two-thirds of them are exploring new revenue models, such as licensing and subscriptions, compared with just half of all Market Follower CMOs.

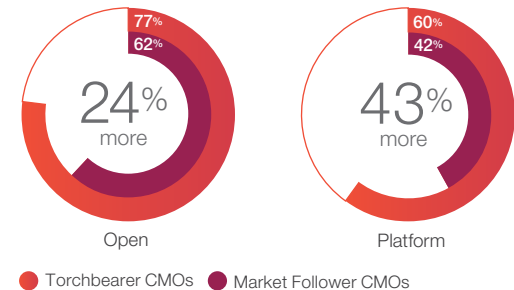
Torchbearer CMOs are also more likely to be experimenting with – or already using – more collaborative business models, such as open and platform variants (see Figure 4).³ They realize that participating in an ecosystem enables all the members to extend their reach and range, and produce more value collectively than they can individually. “I think the CMO’s role is to look ahead – and that includes looking at adjacent markets to identify new opportunities and business models,” the CMO of an Italian telecom provider explained.

“We want to move to a recurring revenue model: selling subscriptions rather than capital goods.”

CMO, Industrial Products, United States

Figure 4

Class act: Torchbearer CMOs are focusing more heavily on collaborative business models

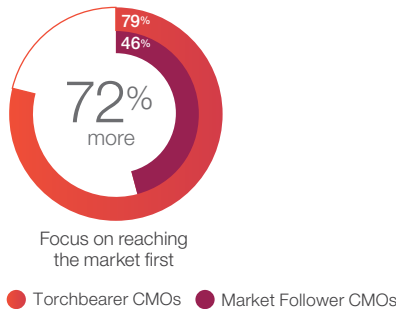


“I want to create an open corporate culture where we use internal and external networks.”

CMO, Pharmaceuticals, United States

Figure 5

Lead role: Torchbearer CMOs are much more determined to reach the market first



Moreover, whether they're developing new business models or new offerings, Torchbearer CMOs are far more focused on reaching the market first (see Figure 5). That's not easy, as many CMOs admit. "We want to be a pioneer, but we need to become more discriminating. We're not very good at stepping back, if a prototype doesn't deliver the expected results," the CMO of a Polish financial institution confided.

Nevertheless, Torchbearer CMOs know there are compelling reasons to make the effort. First movers have always enjoyed certain advantages, such as the "buzz" they generate and the ability to charge premium prices. And the challenge to reach the market first is now greater than ever, as the locus of innovation shifts from firms to ecosystems.

The more participants an ecosystem has, the greater the reach it has. And since larger ecosystems offer better opportunities for participants, as they bring in more buyers, they can gradually freeze out smaller ecosystems. So there's a strong winner-takes-all effect. Consider Apple. It wasn't the first company to launch a smartphone, mp3 player or tablet. But it was the first to develop a consumer technology universe of intermeshing devices and apps, a feat that has seen its stock price more than double over the past five years.⁴

Lastly, Torchbearer CMOs are also more likely to exploit opportunities for internal disruption and reinvention by integrating marketing, sales and customer support to present a consistent, authentic face to their customers (see Figure 6). This is difficult. It “means being hyper-connected with every area of the business that interacts with the customer,” as the CMO of a Chilean retailer noted. The CMO must ensure employees in all functions understand the direct or indirect impact they have on customers, and design holistic experiences aligned to the brand promise. And that requires integrated, customer-centric business processes as well as the synchronization and sharing of customer insights.

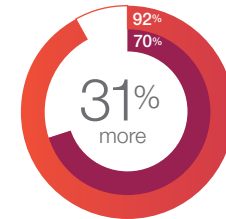
Delivering consistent, personalized experiences that feel natural pays off big-time. Zappos is the classic example. Several other firms are also building customer-centricity into the essence of their brands, as Indian online clothing retailer Jabong shows. The company has earned a reputation for providing outstanding customer service.⁵ Here’s one example of how it has done so. When a customer tweeted a complaint about the state of the courier bags Jabong used to deliver goods to customers, the company quickly responded with a design hackathon, attended by product designers, engineers and logistics experts who collaborated to design a better courier bag and improve the last mile of the customer experience.⁶

“The CMO will have to take the lead in creating an integrated experience and transforming customers into fans.”

Paulo A. Pedó Filho, Brand Director, Grendene, Brazil

Figure 6

United front: Torchbearer CMOs are making more effort to present a consistent face to the customer

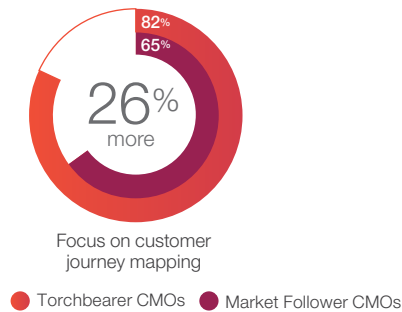


Focus on integrating marketing, sales and customer support

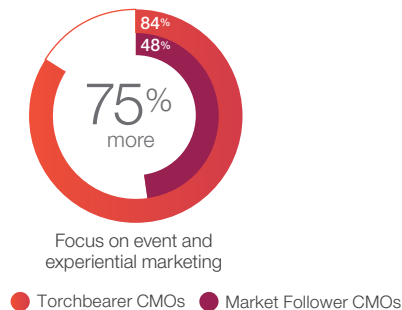
● Torchbearer CMOs ● Market Follower CMOs

Figure 7

Path finders: Torchbearer CMOs are studying the customer journey more carefully

**Figure 8**

Rich blend: Torchbearer CMOs are much more intent on creating physical and digital opportunities to engage



How to do it: Enrich the arc of engagement

As the emphasis on the total, integrated customer relationship continues to intensify, CMOs are responding accordingly. Two-thirds of our respondents regard developing deeper, richer customer experiences as their top marketing priority. “The CMO has to become the custodian of the customer experience, not just the head of the ‘arts and crafts’ department,” the CMO of a global brand management company commented.

CMOs expect to interact with customers on an even more individual and digital basis than they did in 2013. “Marketing is no longer about winning creative awards; it’s about one-to-one communication,” the CMO of a U.S. telecom company warned. Many CMOs also realize they’ll need more external innovation to forge the multi-dimensional experiences customers desire. This explains why 69 percent plan to partner more extensively.

Torchbearer CMOs are way ahead of Market Follower CMOs, though. They’re working harder to understand the customer’s journey through the enterprise (see Figure 7). Mapping the entire path, as well as the technologies, people and processes involved, enables marketers to pinpoint any weaknesses and rectify them. But it’s difficult to plot that path because the customer’s journey is now non-linear and far more complex than it was in the pre-digital era.

Torchbearer CMOs’ focus on delivering holistic, multi-faceted customer journeys is also reflected in their enthusiasm for physical *and* digital opportunities to engage customers (see Figure 8). Amazon, the poster child for cyber selling, recently opened a brick-and-mortar bookstore, for example.⁷ Meanwhile, British high-street retailer John Lewis is piloting various apps designed to enrich the in-store experience. First off the block is an interactive sofa studio where customers can create 3-D images of furniture models in different fabrics to get a better idea of what the finished product might look like.⁸

Similarly, Torchbearer CMOs are better at using customer feedback to explore new trends and collaborating with customers to co-create new products and services (see Figure 9). “It’s the CMO’s job to be the chief ‘client listener,’” the CMO of a Swiss insurer explained. But that’s just the first step; the second is *acting* on what customers say. San Francisco-based apparel firm ModCloth is a case in point; customer collaboration is pivotal to its business strategy. The company has hosted numerous contests to engage its community, including design fashion competitions and contests to come up with clever names for select items.⁹

In essence, ModCloth and its like are applying the tenets of design thinking, which focuses on customers’ experiences – and their emotional experiences, in particular – rather than just the attributes required to make a well-engineered product. Design thinking starts from the premise that quality, efficiency and profitability are necessary, but not sufficient. And it’s as pertinent to business strategy, systems and organizations as it is to product development. Good design aims to make our interactions with complex offerings and enterprises as appealing as possible, by putting customers’ needs before internal operating efficiencies.¹⁰

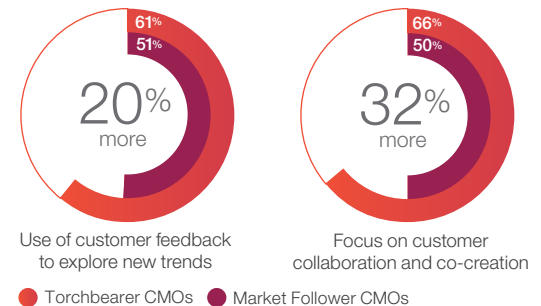
This has major organizational implications. To understand its customers, co-create new products and services with them, and participate in ecosystems, a company must be prepared to relinquish a certain amount of managerial control. Here, too, Torchbearer CMOs stand out from the crowd: 61 percent anticipate more decentralized decision-making in the future, compared with just 48 percent of Market Follower CMOs. Torchbearer CMOs, it seems, are much more comfortable with a devolved management style.

“There won’t be CMOs in the future; there will be Chief Experience Officers who are responsible for the overall customer journey.”

Mohamed AlTajer, Head of Marketing, Branding and Corporate Communications, Commercial Bank International, PSC, United Arab Emirates

Figure 9

Joint enterprise: Torchbearer CMOs are better at listening to customers and applying their input to co-create new offerings



“Cognitive computing will change how people and organizations engage with organizations and one another, and how knowledge is shared and leveraged.”

Stephen Ingledeu, Managing Director, Standard Life,
United Kingdom

What you need to do it: Increase your digital acumen

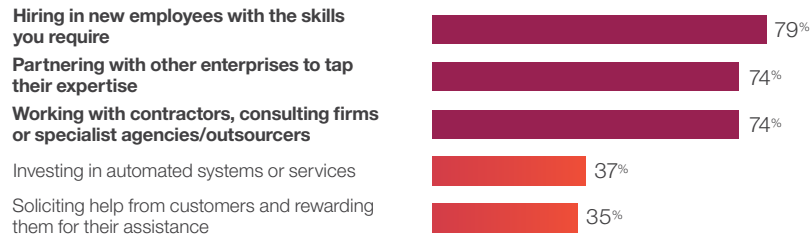
Creating captivating experiences shaped by customer input also requires considerable digital acumen, as CMOs appreciate. Sixty percent want to use data-driven insights to shape their marketing campaigns within the next three to five years – up from 40 percent today. “We need to become ‘math men,’ not ‘mad men,’ and rely on analytics rather than gut feel,” the CMO of an Australian consumer products company remarked.

In fact, 69 percent of CMOs already use predictive analytics, and 45 percent use prescriptive analytics, to explore new trends.¹¹ But only 13 percent currently use cognitive computing, even though the processing capabilities of cognitive systems far outstrip those of conventional systems. Traditional algorithm-based systems are limited by what they’ve been pre-programmed to do, whereas cognitive systems learn through experience and apply what they’ve learned to new inquiries or tasks. They can put content into context; provide confidence-weighted responses; and identify subtle patterns or insights.¹²

That said, cognitive technologies don’t replace human intelligence; they augment it. Many CMOs will thus have to bring in new talent to improve the marketing function’s digital literacy. The issue is how. Four-fifths of our respondents plan to recruit employees with the relevant skills (see Figure 10). And finding the right staff can be difficult. “We need digital natives, but we don’t have any experience hiring such people,” the CMO of a Japanese insurer told us.

Figure 10

Skill zone: CMOs plan to bring in new talent from a variety of sources



Three-quarters of respondents also hope to supplement their in-house resources by working with outside specialists or other enterprises to access their expertise. This has further ramifications. Operating as part of an ecosystem takes different skills from those required to function as a standalone business. The ability to cultivate and manage relationships is absolutely critical, for example.

What's more surprising is that relatively few CMOs plan to solicit help from customers and reward them for their assistance. Customers can actually play a key role in running some businesses – as British mobile phone operator giffgaff shows. Giffgaff relies on knowledgeable customers to service other customers and promote its brand, and gives customers who provide assistance points, which they can convert into cash. The company is now applying the same model to the loans sector.¹³

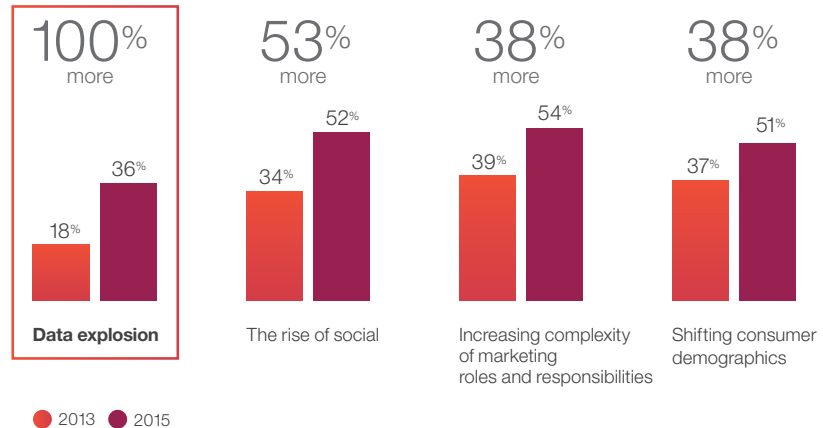
“We need to form new partnerships with organizations that sit far outside our traditional industry or partnering model.”

Jeffrey Evans, Vice President Digital APAC, Epsilon, Australia

Yet the perennial battle for talent hasn't stopped CMOs from making major strides in the past two years. They believe they're better prepared to deal with changing patterns of consumer behavior, the rise of social media and an increasingly complex set of marketing responsibilities. And they say they've made even more headway when it comes to dealing with the data explosion, although this is still the issue that causes the most headaches (see Figure 11). "The amount of data is so huge, and it's growing geometrically," the CMO of a Polish payment services provider pointed out.

Figure 11

Forward march: CMOs think they are better prepared to manage key marketing challenges



Again, Torchbearer CMOs lead the way. Over the past two years they've made far greater progress than Market Follower CMOs in coming to grips with the sheer volume of data to be processed (see Figure 12). They're also better placed to manage the intricacies of modern marketing, as technology provides the tools with which to obtain deeper insights, more accurate targeting and more personalized opportunities to engage with ever more sophisticated customers (see Figure 13).

Figure 12

Data doyens: Torchbearer CMOs are much more confident of their ability to deal with the data explosion

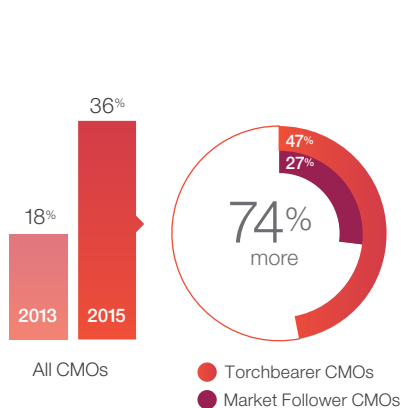
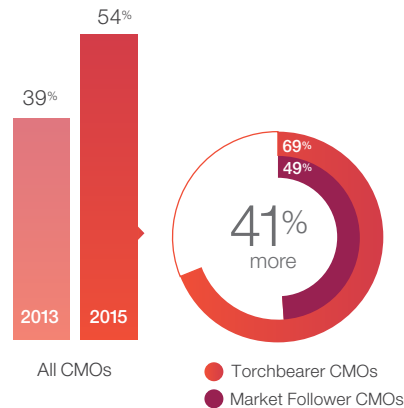


Figure 13

Versatile virtuosos: Torchbearer CMOs are more confident about coping with an increasingly complex marketing mandate



“The CMO will have to become more data-savvy and better at talking with non-marketing people to communicate the marketing strategy.”

Rikke Gransøe Lange, Head of Central Marketing, DFDS, Denmark

Seize the torch

CMOs know they need to prepare for a future in which disruption is pervasive: a future in which technological advances are increasingly blurring the distinctions between different industries, new competitors are emerging from left field and value resides in the entire arc of customer engagement. So how can they maintain a competitive edge as markets are redefined? The Torchbearer CMOs in our study provide lessons from which CMOs everywhere can profit.

What to do: Rethink everything through the lens of customer experience

Fiercely champion your customers. Rethink every aspect of your strategy, design and operations to enhance your customers' experiences with your organization. Focus on forming ecosystems, so that you can devote more energy and resources to developing unique products, services and experiences that are truly better – and make sure you are first to market. Challenge people in every function to demolish internal organizational silos and provide a consistent, authentic face to the customer.

How to do it: Embrace the new digerati

Infuse digital DNA into your team. Grow the digital expertise that's essential to create differentiated experiences for your customers. Set up digital "boot camps" to train your existing staff, and fill critical skill gaps with a mix of new hires and talent from partners in your ecosystem. And don't forget to tap customers as a great source of expertise. Incorporate customer feedback and invite customers to participate as co-creators and innovators.

What you need to do it: Drive with data, digital and cognitive

Use data-driven decision-making to deliver customer experiences that are personalized, relevant and timely – on a large scale. Leverage predictive and prescriptive analytics to identify the best course of action to recommend for customers. Create innovative, improved experiences that increase customer engagement with new digital interfaces, mobile solutions, IoT and cloud computing; and pilot cognitive technologies, which have the potential to reinvent customer interaction.

You can find “Redefining Boundaries,” the first installment of our latest C-suite Study at ibm.com/csuitestudy, or via the IBV tablet apps on iOS and Android.

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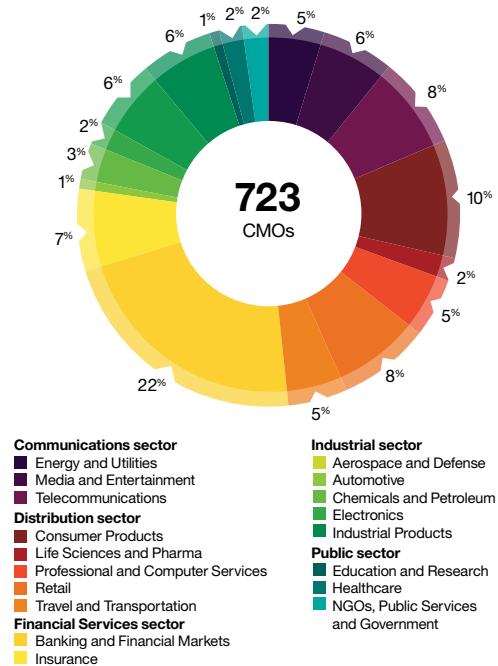
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Figure 14

Sector spread: We spoke with CMOs from 18 industries



How we conducted our research

In 2015, we surveyed 5,247 business leaders in more than 70 countries for our latest C-suite Study, the eighteenth IBM study to focus on the C-suite. This report focuses on the responses of the 723 CMOs who participated in our research (see Figure 14).

We used a two-dimensional rake weighting process to correct for oversampling issues arising from differences in the number of respondents in a given role or region. Our research also included an analysis of the traits that distinguish the most successful enterprises. We asked each CMO to rank his or her organization's position in the industry in which it operates on two dimensions: market perception of its innovativeness; and financial performance over the past three years, measured in terms of revenue growth and profitability (or budget growth and efficiency for enterprises in the public sector). We cross-validated the responses to our second criterion by comparing them with two objective financial measures – compound annual growth in revenue and profit before taxes between 2009 and 2014.

Notes and sources

- 1 For ease of reading, we have referred to CMOs in enterprises that are Torchbearers as Torchbearer CMOs, and to CMOs in enterprises that are Market Followers as Market Follower CMOs.
- 2 Joseph Schumpeter famously referred to disruptive innovation as the "perennial gale of creative destruction." See *Capitalism, Socialism and Democracy*. Routledge, London & New York, 1994. 2003 edition, pp. 83-84.
- 3 Open business models entail systematically collaborating with outside agencies to create and capture value in new ways. Platform business models entail creating a forum in which buyers and sellers can interact directly, and charging a commission on each transaction.
- 4 Travlos, Darcy. "Importance of Being a Platform (Apple, LinkedIn, Amazon, eBay, Google, Facebook)." *Forbes*. February 26, 2013. <http://www.forbes.com/sites/darcytravlos/2013/02/26/importance-of-being-a-platform-apple-linkedin-amazon-ebay-google-facebook/>; Apple's stock price on December 1, 2010, was USD 45.20. At close of business on December 1, 2015, it was USD 117.34 – an increase of 160 percent.
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- 10 Wladawsky-Berger, Irving. "The Evolution of Design Thinking." *The Wall Street Journal*. September 25, 2015. <http://blogs.wsj.com/cio/2015/09/25/the-evolution-of-design-thinking/>
- 11 Predictive analytics aims to forecast what might happen, while prescriptive analytics aims to identify the best course of action in a given situation.
- 12 Bellissimo, Jay, Shanker Ramamurthy, Sandipan Sarkar and Dave Zaharchuk. "Your cognitive future: How next-gen computing changes the way we live and work." IBM Institute for Business Value. January 2015. <http://www-935.ibm.com/services/us/gbs/thoughtleadership/cognitivefuture/>
- 13 Burn-Callander, Rebecca. "Giffgaff, the 'bonkers' mobile network, proves that the crowd can run your business for you." *The Telegraph*. May 26, 2015. <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/telecoms/11630738/Giffgaff-the-bonkers-mobile-network-proves-that-the-crowd-can-run-your-business-for-you.html>

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