Institut für Marktorientierte Unternehmensführung
Universität Mannheim
Postfach 10 34 62

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Reihe:
Wissenschaftliche Arbeitspapiere
Nr.: W 021

Institut für Marktorientierte Unternehmensführung

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Fundamental Changes in Marketing Organization: The Movement toward Customer-focused Organizations

Mannheim 1998
ISBN 3-89333-175-1

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Der Titel wurde anläßlich der Gründung des IMU aus einer Schriftenreihe des ZMU (Zentrum für Marktorientierte Unternehmensführung) an der WHU Koblenz übernommen

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Abstract

As we approach the millennium, there have been a number of articles written about the future of marketing and changes in marketing's organization and role within the firm. However, there has not been research that holistically explores key changes in marketing organization in an empirical setting. The authors draw on qualitative interviews with fifty managers in the United States and Germany and identify three changes in marketing and sales organization: an increasing emphasis on key account management, changes in the role of product management, and increasing dispersion of marketing activities. They then argue that a more general organizational shift is taking place from product-focused to customer-focused organizational forms and consider implementation issues in making this transition. They conclude with implications for academic research, managerial practice, and business school curriculum.

There is growing evidence in the business press that the way firms are organizing their marketing activities is subject to major changes. As an example, many companies have changed their organizational structures in order to become more responsive to customer needs (George, Freeling, and Court 1994). In this vein, there have been some voices questioning the adequacy of classical organizational forms in marketing, especially product or brand management (e.g., *Economist* 1994; Sheth and Sisodia 1995; Thomas 1994). Additionally, as firms focus on reengineering their organizational structure around core processes, the question has been raised whether a marketing department should exist at all in the firm (Hulbert and Pitt 1995; Montgomery and Webster 1997). This increasing interest in marketing organization reflects a more fundamental trend of increasing interest in organizational design as a source of sustained competitive advantage. As Nadler and Tushman (1997, p. 226) have argued, “the last remaining source of genuine competitive advantage that any organization can sustain over time is its ability to organize and motivate people in unique ways to achieve strategic objectives.”

There have recently been a number of articles that consider innovative ways of organizing marketing activities. Achrol (1991), focusing on the effect of increasing environmental turbulence on marketing organization, argues that a higher level of organizational flexibility is needed and suggests two ideal forms that he refers to as the marketing exchange company and the marketing coalition company. Webster (1992) discusses changes in marketing's role within the firm and argues that “managing strategic partnerships and positioning the firm between vendors and customers in the value chain” (p. 1) will become the focus of marketing. Day (1997, p. 93) claims that “Firms will increasingly evolve toward a hybrid or hypertext form of organization - combining the best features of horizontal process and vertical functional forms - in order to get closer to their customers.”

While these studies provide important insights, we observe that this research is primarily conceptual with a focus on specific innovative ways of organizing but with little attempt to study the extent to which the changes they describe are broad-based. Given the interrelated nature of many of the changes occurring, there is a need for systematic research looking at common themes and relationships underlying the changes in organization.

Against this background our study has three objectives. First, we seek to identify fundamental changes taking place in marketing organization and themes underlying the changes. Second, we seek to identify the major driving forces behind these changes. Third, we seek to understand implementation issues related to the major organizational changes. Articles on changes in marketing organization have not emphasized implementation challenges (such as information systems and performance appraisal and reward systems) and it is important to realize that each fundamental change in an organization, while possibly solving one specific problem of the organization may create additional problems which are new to the organization. Our study is based on qualitative empirical research across a broad range of industries and two countries (U.S. and Germany). We feel that analyzing different industries and different countries is especially important in this context since they are subject to different environmental demands which may affect the way that firms organize their marketing activities.

Our paper is organized as follows. In our literature review section we first identify key organizational design dimensions and then summarize the key changes in marketing organization discussed in recent articles. We then describe the methodology of our study. This is followed by a description of three specific changes in marketing organization. After that we discuss the main theme underlying these organizational changes. More specifically, we will argue that a shift toward customer-focused organizational forms is the major development underlying the observed changes. Following our presentation and interpretation of this fundamental shift, we consider challenges firms have in moving to more of a customer focus. We conclude by providing research and managerial implications as well as implications for management education.

Literature Review

In this section we initially draw on research in organization theory in order to develop a structured approach for systematically examining aspects of marketing organization[1]. We then consider some of the more widely discussed changes taking place in marketing and sales organization.

Dimensions for Comparing Marketing Organizational Design

The topic of organization design is very broad and encompasses a range of dimensions such as structure, coordination, culture, power, and skills (cf. Scott 1992). In this section we draw on classical organization theory to identify key organization design decisions and consider the application of these concepts in a marketing and sales context. These dimensions of organizational design will guide our interviews (which we will discuss later).

Structure. One of the most widely studied organizational variables is that of organizational structure (cf. Pfeffer 1982; Scott 1992). There are multiple dimensions to organizational structure and many ways to go about studying how firms organize their marketing efforts. Earlier work on this topic was descriptive, focused on the extent to which firms had adopted or implemented the marketing concept, and considered the types of organizational arrangements used (e.g., Carson 1968; Webster 1981). The earlier work also tended to focus on the product manager and considered the pros and cons of different ways of organizing this function (Ames 1971; Buell 1975). There have also been efforts to understand and explain the extent of involvement and responsibility of marketing groups for various marketing activities (Hutt and Speh 1984; Piercy 1985; Tull, et al. 1991). More recently, interest has shifted beyond the boundary of the firm to consider the organization and structuring of activities in interfirm networks (Achrol 1991; Doyle 1995; Webster 1992).

Coordination. A second fundamental design issue revolves around coordination of activities. Such coordination can be achieved through a range of mechanisms including hierarchical reporting relationships, information systems, cross-functional teams, matrix structures, and integrator positions (Galbraith 1977; Lawrence and Lorsch 1967; Nadler and Tushman 1988). Within marketing, the product manager often performs a key role of coordinating activities related to specific products and has been widely studied (see Low and Fullerton 1994 for a list of 31 studies on the brand management system). There has also been extensive research on coordination between marketing and R&D during the new product development process (cf. Griffin and Hauser 1996).

Organizational Culture. A third organizational design issue that has received increased attention since the early 1980s is organizational culture. Part of the reason for the increased interest were claims that successful companies had strong cultures that supported their business mission (Deal and Kennedy 1982; Peters and Waterman 1982; Wilkins and Ouchi 1983). Deshpandé and Webster (1989, p. 4) define organizational culture as "the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with norms for behavior in the organization." Within marketing, the majority of the research related to organizational culture has focused on market orientation which has been shown to positively affect business performance (Deshpandé, Farley and Webster 1993; Jaworski and Kohli 1993; Slater and Narver 1994).

Power and Influence. A fourth aspect of organizational design concerns the distribution of power and influence within and between organizations (Pfeffer 1981; Piercy 1987). Political theories of organization focus on power, conflict, coalitions, and the dynamic interplay between groups within the organization (Anderson 1982). While most research in marketing related to the issue of power has studied the construct in a channels (cf., Gaski 1987) or organizational buying context (e.g., Kohli 1989), recent work by Workman, Homburg, and Gruner (1998) has considered power in the context of sub-units within the organization and has developed propositions concerning when the marketing sub-unit will have relatively higher or lower levels of power.

Summary. The four organizational dimensions discussed above are aspects of organization design that can be used to compare variations in marketing organization and role across organizational settings. As we will show later, prior research on marketing organization has tended to focus on individual dimensions in depth without considering relationships among them. We believe however that these factors are related and cannot be studied in isolation.

Changes in Marketing Organization

Thus far, we have focused on the identification of dimensions to allow cross-sectional comparison of organization designs. We now consider research that has approached the topic of marketing organization from a longitudinal change perspective. During the 1990s, there have been a number of articles that reflect upon the future of marketing and identify significant changes taking place (e.g., Achrol 1991; Berthon, Hulbert, Pitt 1997; Cravens 1995; Day 1997; Doyle 1995; George, et al. 1994; Webster 1992, 1997). In Table 1 we provide summaries of key studies and indicate the organizational dimensions they have emphasized. In the remainder of this section we consider key themes which appear in this work.

The first general theme is that functional boundaries are declining and firms are increasingly accomplishing their work through cross-functional teams (Achrol 1991; Day 1997; George, et al. 1994; Montgomery and Webster 1997). Achrol (1991, p. 80) argues that "the firm of the future will need to be very permeable across its departments. Its departments and hierarchy will be fuzzily defined, hierarchy will be minimal and indirect, and individuals will have much more autonomy." The rise of teamwork and decline of functional boundaries has been attributed to the need to create new knowledge within the firm (Sinkula 1994; Slater and Narver 1995), to share information across functional boundaries (Jaworski and Kohli 1993; Narver and Slater 1990), and to respond more rapidly to changes in the market (Achrol 1997; Griffin 1997).

A second general theme is that relationships and alliances with external partners are more important (Achrol 1997; Day 1997; Walker 1997). The types of relationships include vertical relationships through the value chain (e.g., supplier-manufacturer, manufacturer-retailer) as well as co-marketing and co-branding alliances (e.g., Barclay and Smith 1997; Bucklin and Sengupta 1993). One of the consequences of a greater emphasis on external relations for marketing organization is that it is common for people in more functional areas to interact with external partners. Thus, in many cases marketing is no longer the primary boundary spanner responsible for interpreting the market (Achrol 1991; Day 1997). While this may lead to a diminished role for marketing (Workman 1993), it often leads to a greater focus on understanding the firm's core capabilities and then strategically aligning the firm in the value chain (Day 1994; Webster 1992).

A third general theme revolves around the importance of developing intangible organizational factors such as market orientation (Hunt and Morgan 1995), organizational learning (Sinkula 1994;

Slater and Narver 1995), and market-sensing capabilities (Day 1994) which may provide the basis for a sustainable competitive advantage. Hunt and Morgan (1995, p. 6) define resources as "the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment or segments." An organizational implication of this focus on intangible organizational factors is that structures, coordination mechanism, and cultures need to be developed which encourage flexibility, adaptability, and sharing of information across functional boundaries.

While research in this area has been very useful for fostering debates about the future of marketing, there are several ways of extending these studies. First, to the best of our knowledge, there are no holistic studies on major changes in marketing organization. Rather, much of this research has focused on specific perspectives (e.g., Achrol's 1997 network perspective) and organizational dimensions or has advocated a certain organization form which may be innovative (e.g., Day's 1997 hypertext form) but may not be representative of widespread changes. Second, while researchers argue that firms should get closer to their customers and develop customer-focused organizations, there has been little inquiry into the specific structural changes needed to be more customer oriented. Third, given that all of the prior research is conceptual (see Table 1), there is a need for empirical research on changes in marketing organization. Finally, implementation issues have not been systematically studied. While many of the ideas for changing marketing organization are innovative, there is a need to better understand the implementation challenges firms face.

Table 1:
Research on Changes in Marketing and Sales Organization

Author(s)	Primary Focus	Organization Design Dimensions	Basis of Support	Summary Comments
Achrol 1991	Marketing organizational forms appropriate for turbulent environments	Structure, Coordination	Conceptual	Argues that "unusual forms of marketing organization (that are ambidextrous and highly flexible)" are needed in complex and dynamic environments." Describes 2 such forms.
Berthon, Hulbert, Pitt 1997	Future of brands and brand management	Structure, Coordination	Conceptual	Consider functions brands provide for sellers and buyers; consider pressures for change of brand management; present three scenarios of future of brand management.
Cravens 1995	Changing role of the sales force	Structure, Coordination, Skills	Conceptual with many examples	Argues three major changes are changing selling: flatter organizations with multi-function teams, market segments as basis for sales organization, more specialized sales forces.
Day 1997	Marketing's role in new organizational forms	Structure, Coordination	Conceptual	Considers role of marketing in horizontal, process-oriented structures as well as in hybrid structures which combine business processes with integrating and specialist functions.
Doyle 1995	Considers key tasks of marketing in the future	Structure, Skills, Career paths	Conceptual with examples	Argues marketing has focused on tactics at the brand level and does not contribute to fundamental strategic issues within the firm; explains differing career paths in marketing.
George, Freeling, Court 1994	Changes in how firms organize for marketing	Structure, Coordination	McKinsey consulting clients	Emphasize roles of specialists and integrators in process-based organizations, emphasize teams and process managers, consider changes in roles of product managers.
Webster 1992	Marketing's role within the firm	Structure, Coordination	Conceptual	Emphasizes changes in marketing's role as firms move along a continuum from transaction to network based relationships.
Webster 1997	Future role of marketing within the firm	Structure, Coordination	Conceptual	Considers strategic, tactical, and cultural aspects of marketing; considers changes in marketing organization and role due to increased customer focus, information technology, globalization, relationships, interfirm networks.

Methodology

Given our objectives of identifying the main changes taking place in marketing and sales organization, of understanding the most important drivers of these changes and of identifying the principal issues in the implementation of these changes, we decided to use field interviews which systematically explored major changes in each of a number of different domains. Qualitative studies have been recognized as an appropriate means of knowledge production in those cases where the subject area is broad and complex (Bonoma 1985; Eisenhardt 1989; Zaltman, LeMasters, and Heffring 1982).

We believe that many of the statements about changes in marketing organization are based on observations in leading edge companies and examples from certain industry sectors which are not representative of more broad-based changes across the general business community. Therefore, we selected firms from a range of industry sectors including service and manufacturing firms, with the manufacturing companies encompassing both industrial goods and consumer goods companies. We additionally included firms from more recently deregulated industries such as telecommunications and public utilities. In order to get additional perspectives across industry sectors, we interviewed marketing academics in the United States and Germany familiar with organizational issues as well as "industry observers" such as management consultants and marketing specialists for major business publications. Altogether, the composition of the sample was 30 managers, 12 academics[2], and 8 industry observers.

Potential respondents were identified from industry directories, references, and personal knowledge and were contacted by an advance letter or fax. Respondents stated their agreement to participate and their preferred time on an enclosed answer sheet. Fifty telephone interviews (evenly split between the U.S. and Germany) were arranged and were conducted by the second author in the United States and by the third author in Germany. The interviews averaged 30 minutes in length and were done in the native language of the respondent.

The first part of the interview was semi-structured around the general organizational design areas identified in our literature review (structure, coordination, culture, and power). Within each area, the authors asked for the most important changes and used follow-up questions to explore the goals of the change, the factors driving the change, and the key challenges in implementing the change. Such use of follow-up questions in qualitative research is consistent with the "laddering approach" (Durgee 1986) and the "narrative approach" (Mishler 1986) advocated by other qualitative researchers. In the second part of the interviews we asked about changes in four important topical areas which are classically marketing and sales related: the role of product managers, the management of key accounts, the development of new products, and the interaction of the marketing and the sales function. At the end of the interview, respondents were asked for additional comments and for an assessment of which two changes they view as the most important.

Systematic notes were taken during the interviews and full transcripts were completed shortly after the interview. In the ensuing review of the notes, the interviewing authors organized the typed notes by topical area and distributed excerpts for discussion with the co-authors, all of whom are fluent in English and German. We initially identified the changes that had most frequently been mentioned as the most important changes. We then turned to each interview and traced the determinants underlying individual changes and barriers mentioned in the implementation of each change. We then sought to identify theme(s) that encompassed the major changes through extensive discussion among the authors and review of interview transcripts. This general approach to analysis of qualitative data is consistent with that recommended by Eisenhardt (1989) and Belk, Sherry and Wallendorf (1988) and utilized by other researchers in marketing management contexts (e.g., Drumwright 1994; Workman, et al. 1998).

Description of Specific Changes in Marketing Organization

In this section we present changes in three areas which we believe were the most significant changes. In the following section we present a more general theme underlying the changes.

Increasing Emphasis on Key Account Management

One of the most prominent changes in marketing and sales organization is an increasing emphasis on key account management. Key account management (KAM) refers to the activities, personnel, resources and programs directed at a limited set of important customers. The increasing emphasis on KAM was observed across all industries included in the interviews, although the reasons for this change varied somewhat by industry.

We observed two trends in relation to personnel working with key accounts. First, we observed that more senior people are assigned to key accounts. For example, a German steel industry manager commented:

> "Top-level meetings are not new, but they used to be much more informal...In the past, one could make deals on the lower sales levels ("You'll get some more tons next time"). This is impossible today as purchasing policy is subject to much tighter controls...Ten years ago, our salespeople had enormous hospitality expenses."

Similarly the automobile industry provides many examples of top managers being involved in procurement negotiations which had previously been conducted on the operational level.

Second, we observed an increasing assignment of cross-functional teams to major accounts. For example, a U.S. consumer goods manager noted:

> "All of our big customers now have a dedicated team that includes demand-side sales types as well as supply-side people. They live in the city where the customer headquarters is. That has been an outgrowth of the acceptance of this is the way you do business...These teams represent all of our brands."

This is a direct response to the need of multi-functional expertise when collaborating closely with individual customers. It seems to be a widespread approach to foster interaction between equivalent functional specialists in the buying and selling organizations.

Based on our interviews, we believe there are two primary factors driving the increased importance of KAM. First, many companies are pursuing the goal of developing closer relationships with their most important customers and view KAM as one way of achieving this goal. While this tendency was actively promoted in some companies, it also represented a reaction to requirements on the part of customers. For example a U.S. consumer goods consultant said:

> “Starting about 1986 there was a dramatic shift of information being better at the reseller and retailer than the supplier. That brought about a change in the power base. ... The major chains got tired of dealing with executional, lower level sales people. They got tired of what I call the ‘Deal of the Month’ club, they got tired of conflicting policies from different operating divisions in the same corporation. ... This has clearly been driven by retailers saying to suppliers, ‘You better call on me holistically, I’m not going to spend the time to talk to 3 or 4 divisions’”

Typically, business customers' emphasis on economies in purchasing operations led to the desire to establish closer relationships with a limited number of suppliers in order to carry out joint process optimization activities. Between consumer goods firms and retailing companies, this trend manifests itself in efficient consumer response (ECR) projects, while between industrial suppliers and buyers just-in-time (JIT) arrangements are established. The common trait of these trends is the desire on the part of the customer to develop a closer relationship with a supplier in order to create efficiency. This development is paralleled by increasing customer concentration and customer power in many industries (such as consumer packaged goods).

A second reason for the increased emphasis on KAM is increased centralization of purchasing decisions. Customers increasingly coordinate purchasing across locations and involve more senior managers and people from more functional areas in procurement decisions. It is difficult to be successful in such cases when using regionally-based sales personnel who call on local purchasing managers. Thus, many firms establish KAM programs with the goal of coordinating sales resources across regions, calling on the customer at higher levels, and using people from multiple functional areas. A special case of this challenge of coordinating sales efforts across regions occurs when firms sell to customers who operate on a multinational basis. In this case there is a need to coordinate marketing and sales policies across country boundaries and in particular to coordinate pricing decisions. International or global KAM teams are one way in which such coordination is achieved across countries. As an example of this trend, a marketing manager in a German chemical firm noted:

> “We need international leverage in the face of international customers. While our customers made decentralized purchasing decisions in the past, they wish to be addressed in a coordinated way today.”

One implication of this change is that the role of country managers (one informant referred to them as "country kings") is generally diminished, with a shift of power and resources away from individual countries to organizational units which span country boundaries.

Changing Role of Product Management

Product managers have long held a central position within marketing (cf. Low and Fullerton 1994) and we believe continue to be central to the marketing organization. Thus, in contrast to those who have proclaimed the "death of the brand manager" (*Economist* 1994), we do not believe that product management is going to disappear. None of the companies interviewed that had established a product management organization had disbanded it nor did any of the interviewed persons predict this. However, we found that the importance and roles of product managers varied significantly by industry. We now indicate key changes within consumer goods, industrial and service firms.

In *consumer goods* firms, we observed a trend of decreasing importance of product management. In general, there was a shift of people and dollars to the sales organization. For example, a U.S. consultant noted:

> "I think the field sales organization is gaining increasing importance in terms of the company's marketing activities. The brand manager used to have a lot more operational authority. Now you're getting a lot more of the promotion dollars or ad dollars that the brand manager had, being pumped into the field sales force to support their relationships with specific customers."

The typical justification for this tendency was the greater role of the sales organization in partnering with major accounts and adapting programs for these accounts.

We additionally observed a shift of focus in product/brand management in many consumer goods companies. More specifically, there is a stronger focus on managing a set of brands within a product category rather than managing the individual brand. This development has led to the use of the term "category management" in many consumer goods firms. The fundamental explanation for this change seems to be that the customers of consumer goods firms (retailers) increasingly think in terms of profitability of product categories rather than sales of individual brands. The shift in focus in product management reflects an attempt to better think in terms of the categories of the direct customers whose power has increased. This involves a loss of influence of product managers in charge of individual brands.

In most *industrial goods* companies, contrary to consumer goods firms, product management is gaining increasing organizational legitimacy. Until recently many industrial and technology based firms had product managers reporting to R&D or operations rather than marketing. However most of the industrial firms we interviewed had product managers established as a central and influential part of the marketing organization. A related trend within these firms was to give these product managers more power and a greater ability to represent customer needs. For example a German chemical industry manager noted:

> "The tasks of the product manager have undergone tremendous change during the last five years. Having been a product administrator in the past, he is now carrying more holistic responsibility and is more customer-driven"

In *service firms* there is an increased recognition of the importance of systematic product management. We observed that service firms are increasingly introducing product managers into their organizational structures in order to help make and implement decisions about customer segmentation, development of product lines, branding of service offerings, and standardization vs. customization of service offerings.

Increasing Dispersion of Marketing Activities

Another change in marketing and sales organization is to have a greater dispersion of the marketing effort. One U.S. consultant generally noted that "more and more of the actual activities that we associate with marketing are not part of the marketing organizational structure per se." One limited form of dispersion occurs when marketing retains responsibility for an activity but seeks greater involvement from other functional groups, often through cross-functional teams. For example, a marketing manager in a German industrial machinery firm said:

> "We have founded a so-called MTS-circle [marketing-technical-sales] which meets every 2-3 weeks...This is how we manage to have engineers accompany sales and marketing people on their customer visits...In the old days, a salesman in the field organization who noticed a customer problem had to look for someone at the plant who felt responsible for that problem ... With today's MTS circles, salespeople know the product better and there are clear responsibilities for problem solving.

We view this as a case of limited dispersion in the sense that neither personnel nor responsibility are reassigned. In the remainder of this section we describe five types of dispersion which we encountered in our empirical research. The first four types of dispersion are related to intraorganizational dispersion, while the last type refers to interorganizational dispersion of marketing activities.

Dispersion to a temporary team. In this case, there is a transfer of responsibility for an activity to a temporary team. Such teams are typically composed of members from multiple functional areas and have a team or project manager. The team is now responsible for the decision with personnel sometimes reporting in a dotted line fashion to the team manager and sometimes being permanently assigned to the team. Common examples of this type of dispersion include new product development teams and temporary task forces for issues such as customer satisfaction.

Dispersion to a permanent team. The distinction between this type of dispersion and the former is the permanence of the change. Many firms increasingly think of their business in terms of cross-functional business processes (Day 1997; George, et al. 1994; Webster 1997). Once firms have identified their key business processes, there is often a movement of key marketing activities and personnel to process teams responsible for activities such as order fulfillment, customer service, and logistics. As a manager in a German steel company pointed out:

> "In order to foster communication, we are establishing order handling centers, which combine commercial and technical activities. Imagine one big room where all are sitting next to one another. This reduces interfaces."

Dispersion to an existing organizational unit. Another form of dispersion occurs when responsibility and personnel are transferred from marketing to another existing functional group. Keeping in mind that marketing and sales usually are distinct organizational entities, we observed the greatest shift in direction of marketing activities has been from marketing to sales. As one U.S. marketing academic noted:

> "Activities traditionally done by marketing people are getting done now by the sales force or staff people in the sales force area. They're just closer to the customer."

A marketing vice-president at a U.S. packaged goods firm provided an example of such a reassignment of marketing personnel:

> "We have marketing and sales people serving on dedicated, cross-functional teams working in the field supporting accounts ... The cross-functional members of those teams, have hard reporting relationships into sales now and dotted-line into the rest of the business."

Dispersion to a new organizational unit. Another form of dispersion occurs when a new unit is established with responsibility for a marketing activity that reports directly to a general manager. This is most commonly observed when a marketing activity becomes so strategically important that it merits special attention. For example, in some industries it is common for the pricing function to be taken out of the marketing unit (e.g., airline and telecommunications industries). Other firms have created new organizational units to focus on customer information, worldwide brand image, and customer service. In Germany, many firms are establishing a new high-level pricing manager to ensure coordination of pricing structures across Europe, due to the approaching common currency.

Dispersion beyond the boundary of the firm. A final case of dispersion occurs when a marketing activity is outsourced. Firms have long outsourced portions of advertising and market research (Ruekert, Walker and Roering 1985) as well as sales and distribution functions (Anderson and Weitz 1986). However, our interviews provide evidence that numerous other marketing activities are being outsourced such as logistics, order fulfillment, telemarketing, customer service, direct mail, and web-site development.

Reasons for Marketing Dispersion. There seem to be two general reasons for the increased dispersion of marketing effort. First, dispersion may be done in order to obtain the necessary specialization and expertise to perform the marketing activities. This includes dispersion to new organizational units focused on certain tasks or to external units that specialize in the activity. A second reason for increased dispersion is to get closer to customers and markets and to provide additional value to customers. The dispersion of marketing activities to cross-functional or process teams and to existing units (particularly to sales) are examples of dispersion in order to move decision making closer to the customer.

The New Paradigm in Organizational Design: Customer-focused Organizations

In this section we first describe a change in the general orientation by which firms organize. We then consider typical transitions that firms go through as they move toward more customer-focused organizations.

General Orientation

In the course of analyzing the interviews, it became clear that the changes in marketing and sales organization could not be looked at in isolation. While the ideas discussed so far (increased importance of KAM, changes in roles of product managers, dispersion of the marketing effort) are *primarily* occurring within the marketing and sales units, they are embedded in a general shift which is so fundamental that we believe it represents a paradigm shift in organizational design. The changes occurring throughout organizations can be summarized as a transition from product-focused organization to customer-focused organizations. For example, a manager in a U.S. chemical firm noted:

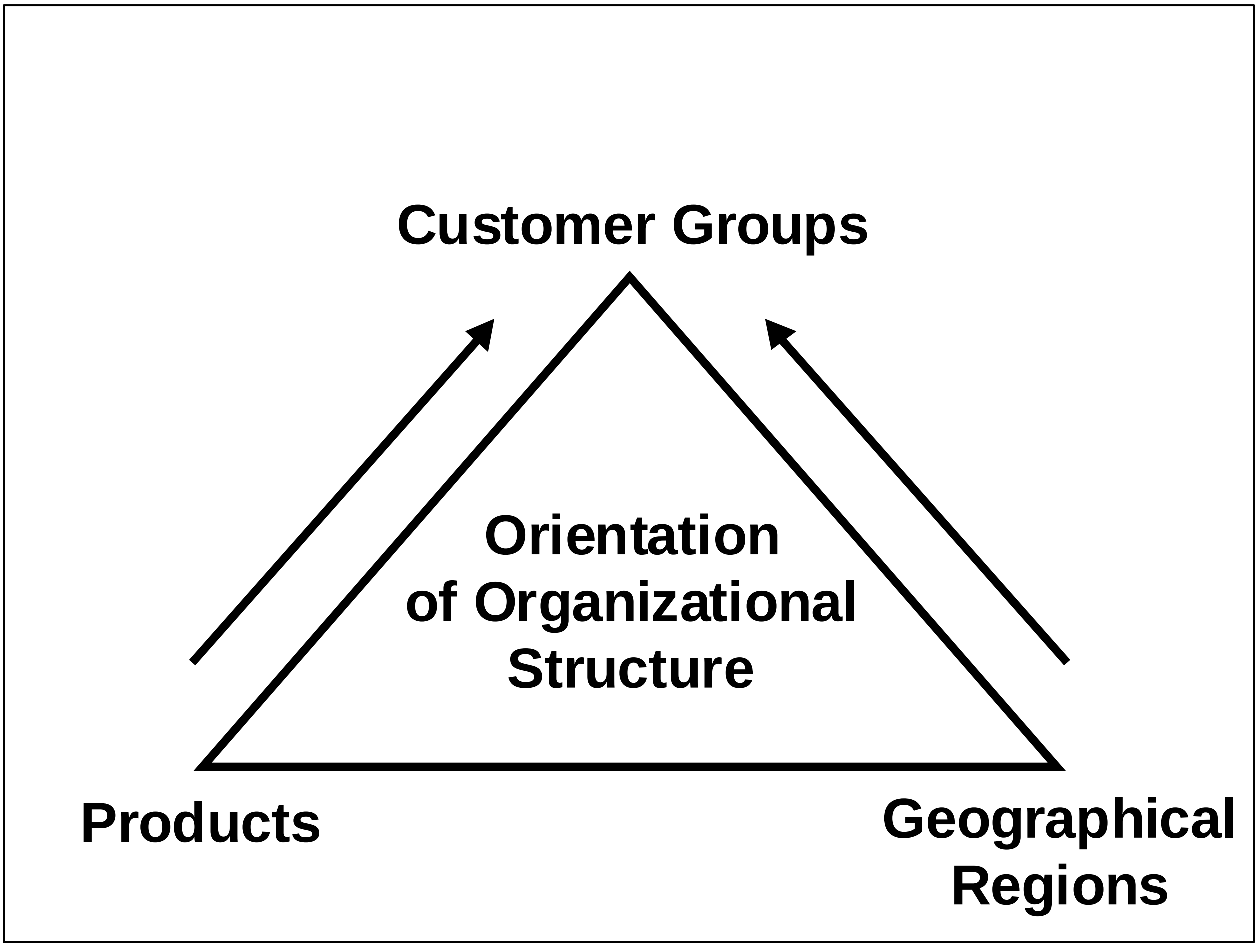
> "The basic philosophy is to organize around markets, have a lot more focus on what drives markets, what markets need in terms of products and services, and put ourselves in a position so that we can change our products and services so we can change and adapt more quickly."

The paradigm shift in organizational design relates to the basis on which business units are established. According to Cespedes (1989), there are three main orientations for defining strategic business units. These include orientations toward product groups, towards geographical regions, and toward customer groups. We observed that many firms which traditionally tended towards product-focused definitions of business units and which structured their organization around countries, are redefining their business units from a customer perspective. While this does not mean to completely abandon the two traditional orientations, clearly their importance is diminishing. Hence, as shown in Figure 1, the shift towards a customer perspective has two facets: a de-emphasis of the product-focused perspective and a de-emphasis of geographical regions.

The *shift from product-focused to customer-focused organizational structures* is motivated by the need to come closer to the problems the customer is trying to solve. Within a product-focused organization, sales people are essentially product specialists and are typically assigned to a single product-focused SBU selling to all customers of that SBU. The new organizational form seeks to enable sales people to better assess the industry value chain including the customer's customers and to differentiate offerings on the basis of this knowledge. Within such a customer-focused organization, it is common to find the salesforce selling *all* of the product lines of the firm while being assigned to a single customer group. A manager in a U.S. telecommunications firm noted:

> "We have been restructured over the years away from product silos and more toward customers. Sales is organized by customer and they are able to sell the entire product line of the corporation. ... We try to sell to the customer whatever they need end to end to meet their requirements."

Figure 1: Shift toward Customer-focused Organizational Structures



Another way of moving toward greater customer focus is to add market or customer segment managers who act in coordinating and liaison roles and represent the needs of given customer segments, typically within the marketing organization.

The *shift from regionally-focused to customer-focused organizational structures* is the second aspect indicated in Figure 1. One way of accomplishing this is to reorganize sales people based on the type of customer they sell to rather than their geographic location. As a business magazine editor in the U.S. noted, “Firms don’t want a generalist who will sell to everyone in the New York area, they want a financial person who will call on Dean Witter, Goldman Sachs, Saloman Brothers.” In an international context, firms operating in multiple countries have typically had subsidiaries that were fairly autonomous with a strong influence of local management. One German manager in the chemical industry noted:

> “Until recently we left each affiliated company on its own, they basically reported sales numbers. Now regions that face the same problems, are clearly grouped together.”

Another German manager from an industrial supply firm noted:

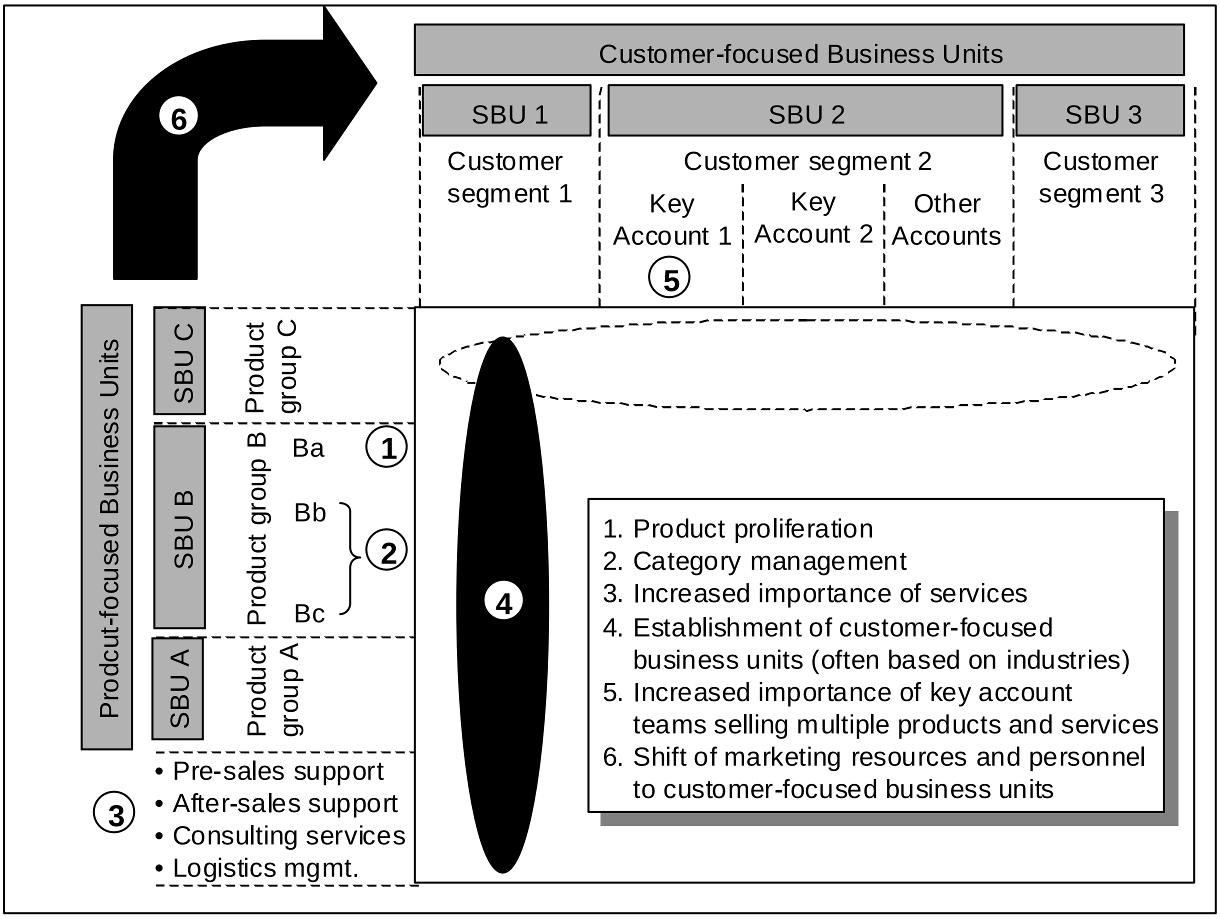
> “Until two years ago, everything was strongly decentralized. The national affiliates had their own strategy, only 30% of the activities were coordinated. Today, 70% are coordinated.”

Increasingly firms are establishing sales regions which span country boundaries. Additionally, many firms are establishing “competency centers” which consist of specialists who may be geographically dispersed and specialized in certain types of applications or industry sectors. A U.S. marketing manager at a computers systems firm mentioned a specific example of drawing on worldwide technical support:

> If somebody at Daimler Benz in Stuttgart needs a guy to talk about plant floor automation, he calls a specialist to come in and help. All of that is done on a global basis. So if that skill is in Boulder, Colorado, he gets it.

We believe there are three major reasons why firms seek a stronger coordination across countries. First, information dissemination across country boundaries is facilitated by modern communication and information technologies. Generally this increases the interdependence of activities across countries. In such circumstances, a firm’s marketing activities in country A may have a strong impact on their market position in country B. This problem turned out to be most significant within Europe. As one German manager noted, “uncoordinated prices are a dangerous game” due to the forthcoming introduction of a common currency which will make prices more comparable. Second, buying firms emphasize synergies across countries in their procurement operations to a stronger extent than in the past. Thus, industrial suppliers often implement global key account management programs to facilitate cooperation with customers who source products on a global basis. Third, there are also motives of the supplier to emphasize the centralization of decisions across countries to a larger extent than in the past. Some interviewees mentioned the desire to control product variety. For example in consumer goods sectors, firms tend to search for ways to standardize brands across countries in order to exploit cost synergies. Additionally, speeding up of global new product introduction was mentioned as a reason for increasing centralization across countries and arraying the organization more toward the customer.

Figure 2: Evolution from Product-focused to Customer-focused Business Units



Combining the two facets of the move toward customer-focused organizational structures yields an important insight into the question whether marketing and sales operations will be more centralized or more decentralized in the future. On the one side, increasing interdependence between countries leads to a stronger need for centralization across countries. On the other side, in order to be more customer-focused in terms of their marketing and sales operations, firms tend to decentralize their activities in terms of customer industries. Thus, our findings indicate more centralization across countries and less centralization across customer groups.

We believe that the movement along the product-side of Figure 1 is more significant because it represents a shift in orientation from a supply side perspective to a demand side perspective. It additionally applies to more firms than the regional shift.

Organizational Transitions

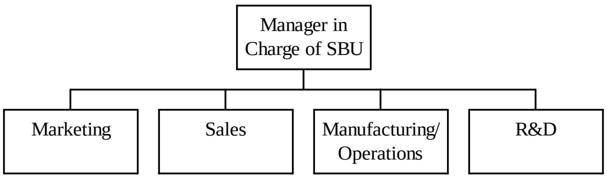
We believe that the transition from a product-focused to a customer-focused organization is an evolutionary process. In Figure 2 we have indicated some of the aspects of this transition from product-focused SBUs, which typically sell a limited set of products to many different types of customers, to customer-focused SBUs, which typically sell a broader set of products to a limited set of customers.

In this figure we have also indicated a number of trends which we believe are part of the general process of the shift to customer-focused business units. First, product proliferation has occurred in many firms due to the production technologies which allow “mass customization” (Pine, Victor, Boynton 1993) and due to the greater ability to target smaller customer segments with product features which are more appropriate for their needs. Second, the increased number of products available often results in resellers wanting assistance at the overall category level, not the product level. Thus, firms increasingly have established managers responsible for entire product categories. Third, there is an increased importance of services in developed economies, with many major firms receiving more profits from services than from products. Fourth, many firms reorganize their sales force around customer groups (often industry-based) in order to develop coherent “solutions” out of the products and services from multiple divisions. Fifth, following from such an industry segmentation, many firms then assign key account managers to be the single point of contact with major accounts, selling the entire range of products and services produced by their firm. Sixth, the final change indicated in Figure 2 is the resultant shift of marketing resources and personnel from the product-focused business units to the customer-focused business units.

In order to make a transition from a product-focused to a customer-focused organization, firms typically go through a number of major reorganizations. Figure 3 presents a range of six organizational types moving from a weaker to a stronger degree of customer focus. These six organizational forms are intended not to represent the transitions undergone by any single company, but rather to indicate representative changes from lower to higher levels of customer-focused organizational forms. The transition from 3(a) to 3(b) represents the creation of the multi-divisional form which has been widely discussed and studied (e.g., Chandler 1962). The transition from 3(b) to 3(c) primarily consists of the addition of “market managers” (possibly called application, segment, or industry managers) who are introduced to coordinate the marketing activities in selling to customers in selected markets. One U.S. bank marketing manager noted: “We have segment managers such as for the affluent segment, for the small business segment, for retirees.” Such segment managers are distinct from key account managers in that they are typically part of the marketing rather than the sales organization, usually encompass all sales to the specified segment, and work more in a product or service management role than as a coordinator of selling efforts. The organizational placement and degree of authority of these managers varies significantly, but most act primarily in a coordinating/ information role, usually reporting into marketing, with no direct authority over the salespeople calling on customers in this market.

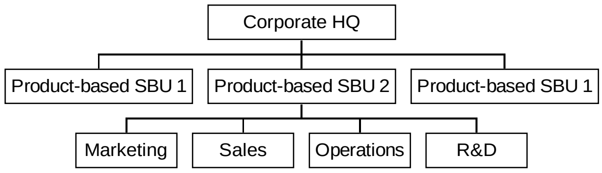
Figure 3
Typical Organizational Configurations in the Movement toward Customer-focused Business Units

(a) Functional organization



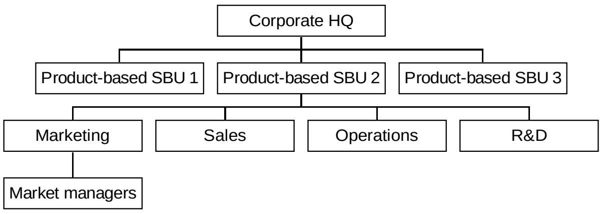
- Firm organized around functional groups

(b) Product-focused SBUs



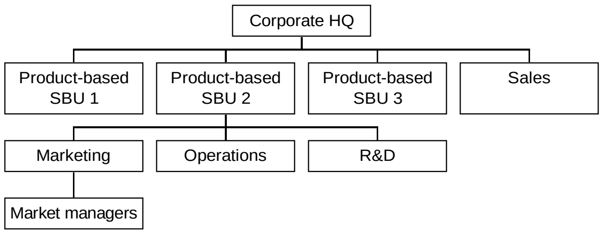
- Divisionalization to focus on distinct markets
- Autonomous, product-focused, functional SBUs
- Each SBU retains its own salesforce

(c) Introduction of Market/Segment managers



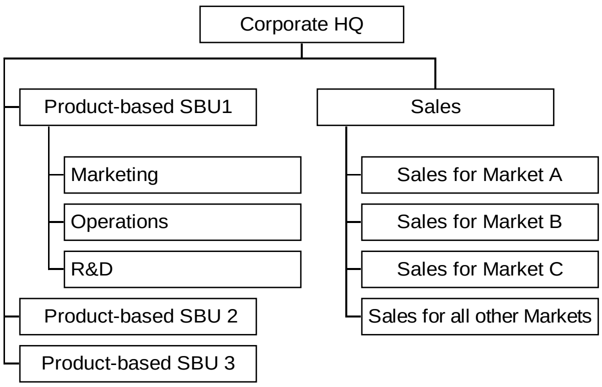
- Coordinating/informational role with little authority
- Organizational placement varies (e.g., in marketing, in sales, reporting to head of SBU)
- Informal coordination w/ market mgrs in other SBUs

(d) Reorganization to a Single Sales Force



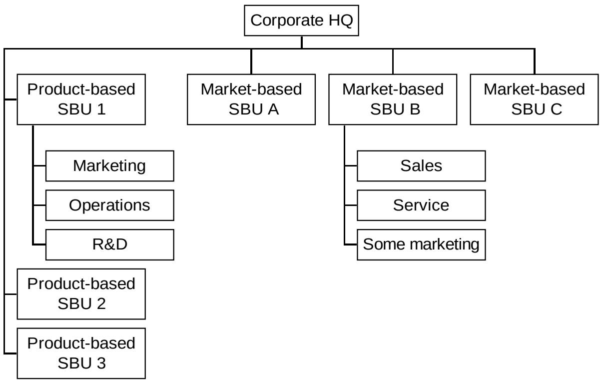
- Sales forces of multiple SBUs combined
- Major change - SBUs no longer autonomous
- Basis of sales organization (typically geographical regions) does not change

(e) Sales Force Restructured around Markets



- Structural realignment of much of sales force around markets/segments rather than geography
- For first time allows centralized coordination of all selling activity to a customer-segment
- Market/segment managers typically measured on revenues and costs to achieve revenue
- Some marketing resources shift to sales organization
- Product-focused SBUs retain functional groups

(f) Emphasis Shifts from Product-focused to Customer-focused Business Units



- Primary profit and loss shifts to customer-focused SBUs
- Product-focused SBUs seen as suppliers to customer-focused SBUs
- Product design driven by customer-focused SBUs
- Increased movement of marketing activities, budgets, personnel to Customer-focused SBUs

The transition from 3(c) to 3(d) represents a major reorganization at the firm (or division) level as the sales forces of multiple product-focused SBUs are combined. This is typically done due to the similarity of selling tasks among the SBUs represented, to save on selling costs, and possibly due to the desire of customers/resellers to have a single point of contact. However, one implication is that SBUs are no longer autonomous, since they have lost control of the selling function. The next transition, from 3(d) to 3(e) represents a restructuring within the sales organization around major markets (e.g., industries, applications) rather than geographic regions. The market managers are now in the sales rather than the marketing organization and they typically have hierarchical authority over the sales personnel calling on customers in designated markets. The final transition, from 3(e) to 3(f), is not so much a structural change as it is a change in orientation and internal systems. The managers in charge of the market (or customer-focused) SBUs now have full profit and loss responsibility and typically report at a higher hierarchical level. At this stage it is common for some of the marketing personnel and budgets in the product-focused SBUs to shift to the customer-focused SBUs. In some firms these customer-focused SBUs are given a high level of autonomy and are allowed to develop their own products and services and/or to distribute products and services from external suppliers if they cannot obtain the appropriate products and services from internal units.

It is worth noting that as firms move to higher levels of customer-focus, they are also introducing greater complexity in their organizational structure. This complexity typically shows up with key managers having either dotted line reporting to other parts of the firm or dual solid lines (a matrix reporting relationship) to two parts of the firm. In our interviews we noted that some companies which had recently gone through a downturn moved from higher to lower levels of customer-focus. Given the greater complexity of the most customer-focused organizations, this suggests that firms during times of crisis may tend to establish more simple command structures with a clear emphasis on efficiency.

Implementation Issues

In this section we focus on some of the key challenges in implementing the organizational changes identified thus far. The ideas in this section emerged from our interviews and are organized in a way to systematically consider a number of implementation issues. We start with a consideration of the role of three types of systems -- information systems, accounting systems, and reward systems. We then consider adaptations in human resources management, focusing on changes in skills needed and career paths in marketing and sales. We conclude this section with a brief consideration of changes needed in the overall corporate culture.

Adaptation of Systems

Information systems. It was a common theme throughout our interviews that information technology was a key factor that enabled many of the changes in marketing organization. As one U.S. manager noted, "You don't need all these layers and layers of people dispensing information. Now, everyone can get information at their fingertips quickly from wherever they are on the road."

One interesting implication of the spread of advanced information systems is that coordination and control are increasingly uncoupled from geographical proximity. One reason firms historically focused more on product-focused and regionally-focused organizational structures was the need to have proximity of people working together. Today, information systems allow more geographically dispersed people to be part of the same organizational unit because information can be easily disseminated via e-mail, shared data bases, and corporate intranets. In regard to coordination, one sales manager of a German medical equipment manufacturer pointed out that "team selling becomes possible through new technologies which allow permanent reachability, such as through modem-equipped laptops and cellular phones." Given that document handovers, scheduling, and travel time have traditionally been major impediments to team efficiency, file sharing helps teams to simultaneously work on one document, electronic calendar systems help to automatically find free slots for team meetings and teleconferencing reduces the need for travel. One U.S. pharmaceutical manager who had worldwide responsibility for a product stressed that "the speed of the communication is incredible and makes it a lot easier to be global." The increased centralization across regions as in the case of global account management is also facilitated by the fast access to front-line information.

The key challenges we heard regarding implementation of the new systems were not so much ones of technology, but rather ones of social acceptance of the new ways of working. First, information technology changes what people do and the way activities are done and there is often resistance to this changed nature of the work. Second, to the extent that information systems allow more dispersed groups of people to work together, people may lose the social contact with co-workers, may feel more isolated, and may resist changes in this regard. Third, firms often encounter significant internal resistance when attempting to fill their internal systems with useful information. Salespeople are often reluctant to surrender information about customers since knowledge of their customer base constitutes a primary source of their power. One manager commented that sales representatives in one country who were asked to provide information on a key account's local operations to a centralized information system on this key account, resisted this request. In this case it is not only giving up the information but also giving it up to people in another country. Thus, companies need to consider the incentives they must provide to fill their information systems with useful information.

Accounting systems. In order to make a transition to customer-focused organizations, there is a need to adapt accounting systems. Accounting systems typically are able to track profitability of products but not of individual customers or customer groups. As one U.S. academic noted:

> Most companies don't know the profitability of individual customers, because of fundamental weaknesses in their management accounting systems ... and they don't know the cost to serve various market segments. So they know they have a lot of business which is unprofitable, but they don't know HOW unprofitable it is.

This inability of current accounting systems to support profitability of specific customer groups has been noted by academic research on key account management (McDonald, Millman, and Rogers 1997) and marketing's interfunctional interfaces (Montgomery and Webster 1997).

The difficulty in tracking profitability of customer groups lies in the mechanisms used to allocate costs in the organization. Firms typically allocate costs to product categories and to functional activities rather than to customer segments. Additionally, there are typically no systems for synthesizing the sales to a specific key account on a worldwide basis. The problem this introduces to the organization is that once business units are defined according to customer segments, it becomes difficult, if not impossible, to track their profitability. While some of the interviewees mentioned activity-based costing (Cooper and Kaplan 1992) as an instrument to make accounting systems more customer oriented, the general feeling was that the on-going use of such complex accounting tools is too demanding in terms of manpower.

Reward systems. The lack of customer-orientation of accounting systems directly translates into a problem of reward systems. Since most firms' accounting systems do not allow tracking of profitability by customers or industry segments, profitability-based reward systems are difficult for many firms to implement as they move to customer-focused business units. This is a problem both at the business unit level as well as at the level of the key account manager.

A second issue mentioned by several people is that it is difficult to measure the performance of key account managers, even if profitability systems are in place. As one U.S. academic noted, "How do you measure the performance of a key account manager when he has to rely on so many other people?" A number of people pointed out that traditional incentives were primarily individually oriented and with the increased use of teamwork, there is a greater need for team-based incentives.

Changes in Human Resources Management

Individual Skills. The changes discussed in this article also call for new skills in sales and marketing. Managing long-term relationships with major customer accounts requires skills well beyond personal selling and negotiation skills. When working more closely with a limited number of accounts, sales people need an understanding of the entire industry value chain in order to best match a firm's products and services to their customers' operations. As one U.S. consultant noted:

> "Companies are very concerned about management of their working capital. As a result, the way they think about terms and conditions with their suppliers changes. Financial terms and conditions, logistical arrangements, setting up EDI arrangements, all of this becomes more important. Therefore, the people who do key account management increasingly have to have expertise in those areas."

Additionally, an increasing number of key account managers are responsible for costs in serving the account as well as the revenues generated. This leads to a need for skills in understanding the financial impact of various decisions and understanding how to provide value to customers. As a number of people noted, the skills are more those of a general manager than a typical sales manager.

Another change in skills mentioned by several managers was the need for leadership behaviors among key personnel in both sales and in product management. The greater emphasis on cross-functional teams and horizontal business processes means there is more ambiguity in organizations and more voices being put forth of what to do. One result is that championing and leadership behaviors are increasingly important. Key account managers are increasingly likely to be the point of contact between the supplier and the customer, yet not to have control over all of the resources needed to be successful in that account. A U.S. manager in an industrial firm noted:

> "The salesperson who previously managed a $20 million territory with 10 accounts now is managing a $30 million territory with one or two accounts. They need to be able to come back inside the organization and effectively marshal the resources and gain the support to meet that customer's requirements. Because that customer that you are doing $10 or $15 million with, has naturally a much higher expectation for what you are going to do for him."

While this situation of "responsibility without authority" is well known to product managers (Buell 1975; Low and Fullerton 1994), it has historically not been as common within sales. This greater ambiguity, greater use of teams, and greater emphasis on horizontal business processes produces a greater need for teamwork skills, more breadth of experience, greater empathy for goals and constraints of people in other functional areas, and more flexibility in being able to respond quickly to changing business conditions.

As far as product managers are concerned, there is a need for them to be qualified to assume responsibility for a whole category of products. In this vein, a stronger strategic orientation needs to be developed in product management. In order to build up the new set of skills needed, firms need to adapt their recruiting criteria, reevaluate their training programs, and rethink desired career paths. We now consider some of these changes.

Recruiting, Training, and Career Paths. Given the increased emphasis on cross-functional teams, many firms recruit individuals who have a variety of career experiences and have demonstrated they can effectively work in a team setting. For example, a U.S. consumer marketing vice president noted:

> "From a skills standpoint, we are almost demanding now that people move between functions. Because in this kind of environment, you have to have more experience than just your own. For that reason, when we recruit, we are actively looking for people who have had a real broad background."

In regard to career paths, we heard a number of comments that vertical career paths within either marketing or sales are less common than in the past. Rather, a number of people said that people need experience in a number of functional areas in order to advance to general management. For example, one U.S. consumer goods manager noted:

> "There is a tremendous amount of movement between marketing and sales. People are moving around more so that by the time they become a general manager they've actually sat in many other places and have a much broader experience base than someone who goes straight up."

In consumer firms, brand managers are increasingly required to work in the sales organization in order to be promoted. On the sales side there is, on the one hand, more specialization in order to deal with specialists in the customer accounts, but also a recognition that effective account managers need experience in areas outside of sales in order to effectively provide an integrated view of the firm's products and services.

Developing a Customer-focused Organizational Culture

While it is important to make changes to information, accounting, and reward systems and to develop individual skills in ways that support the transitions we have discussed, this is not enough. As we have indicated earlier, the transition from a product-focused organization to a customer-focused organization is not limited to changes within the marketing and sales units. Rather changes are required throughout the organization. As a report by McKinsey & Company on changes in marketing organization emphasizes:

> "The hardest challenge may be instilling a new marketing culture. Making the transition from a relatively simple structure to one in which process-based teams, dispersed throughout their organization, deliver value to consumers and customers will test the beliefs of even the best marketing companies" (George, et al. 1994, p. 62).

In our field research we asked about changes in corporate culture but did not observe any systematic pattern in the direction of change. It appears that firms are more aware of their cultures than in the past and are aware of the importance of actively managing them. However, we encountered little evidence of systematic approaches to managing culture. Thus, instruments such as the market orientation scale (Kohli, Jaworski, and Kumar 1993) do not appear to be widely used as diagnostic tools.

Implications

Implications for Academic Research

In this paper we have identified a number of fundamental changes in marketing and sales organization and have claimed that these changes are part of a broader shift toward customer-focused organizations. Unlike previous research that has been conceptual, our study is based on systematic field research. Additionally, we do not focus on one specific organizational form, but provide a holistic perspective on organizational changes. Additionally, we provide an extensive discussion of problems that occur in the implementation of the new organizational concepts.

In addition to providing insight on organizational changes taking place in practice, our research makes a contribution to the research stream on market orientation. Previous research in this field has typically looked at market orientation from a cultural or behavioral perspective (e.g., Jaworski and Kohli 1993; Slater and Narver 1994). While existing scales provide a solid understanding of what constitutes a market-oriented culture, specific organizational changes required to support an increase in market orientation have not been addressed previously. As such, our research adds an additional perspective to the marketing orientation literature.

Although we identified a number of fundamental changes occurring, an important contribution of our study is to reveal that not everything is changing. Some writers have argued that product management is going away (*Economist* 1994) and that marketing is not a function but rather a way of doing business (McKenna 1991). In contrast, we find that the traditional organizational form of product management is remaining in most firms. Also, although many marketing activities are carried out in cross-functional process teams, we observed that functional units for marketing and sales activities are not abandoned.

Our research also suggests fruitful avenues for future research. First, there is a clear need for large scale empirical research (such as surveys and secondary data analysis) to identify environmental factors affecting adoption of specific organizational forms as well as to assess performance outcomes of various organizational structures. Such research would additionally allow normative statements concerning optimal organizational configurations to be made. Several researchers have provided frameworks which identify organizational and environmental dimensions which can help guide decisions on constructs to include in such empirical research (e.g., Achrol 1992; Workman, et al. 1998).

Second, while there has been a lot of empirical research on product management, the topics of key account management and of the dispersion of marketing activities are clearly under-researched empirically. Sound psychometric scales need to be developed to describe and predict these changes.

Third, our research reveals a need for new types of interdisciplinary research. Prior interdisciplinary research in marketing has tended to emphasize the marketing/R&D and marketing/manufacturing interfaces. The movement toward customer-focused organizations requires changes in accounting and information systems and in human resources management, particularly with regard to implementation issues. Research in services marketing has already emphasized that people throughout the organization are critically important in creating positive experiences for customers and have developed concepts such as "internal marketing" (Grönroos 1990) which should provide a basis for this new type of interdisciplinary research.

Implications for Managerial Practice

A number of managerial implications follow from the ideas we have presented in this paper. First, in order to make organizations more focused on their customers, we have suggested that structural changes may be needed. The typical organizational configurations in the shift toward customer-focused business units presented in Figure 3 can provide ideas for structural changes in the organization.

Second, we draw managers' attention to the fact that creating customer-focused organizations takes more than changes of reporting relationships. In order to effectively organize around customer groups, accounting and information systems must be in place to track revenues and costs by customer (or by groups of customers). Additionally, managerial reward systems need to be adapted to provide rewards for managers to be more focused on their customers. Thus, while structural changes can be made relatively quickly, necessary changes in systems, skills, and culture are longer-term tasks.

A third managerial issue relates to managing people who have skills that are no longer relevant when firms move toward a greater customer-focus. In parallel to the increasing importance of certain skills (which we have emphasized), there are other skills that are less relevant or may even be obsolete. For example, many European firms have abandoned their country-based sales structures and no longer have country managers. We believe that senior management needs to actively deal with the question of what to do with people whose skills are no longer so relevant ("dinosaurs" according to one informant). It is important to realize that these people can undermine desired organizational changes since they stand to lose out in the new organization.

A fourth implication is that conventional approaches to market segmentation must be reconsidered for firms operating in multiple countries. It is common practice in multinational firms for segmentation decisions to be made in each country, with inconsistency in segmentation approaches across countries. As firms increasingly try to coordinate their marketing activities across countries, there is a need to search for segmentation approaches that span country boundaries.

Implications for Management Education

We believe there are a number of far-reaching implications for management education of the shift from product-focused to customer-focused organizations. To be effective in marketing and sales, students clearly need to have greater teamwork skills and need to be more aware of organizational structures which promote customer focus and allow rapid response to changes in the business environment. Among marketing faculty, we believe there remains an overemphasis on product management skills and an under-appreciation of the skills needed to be effective in sales positions in customer-oriented organizations. It is becoming increasingly common in consumer goods firms to require product managers to rotate out into the field sales organization if they desire to advance within their organizations. It is time for marketing faculty to place greater emphasis on the skills needed to be effective in key account management positions and to recognize that key account managers have skills more similar to those of general managers than to those of traditional sales people.

Given the importance of marketing's cross functional interfaces, one way to help students understand and appreciate these interfaces is to have more class sessions taught jointly by marketing and non-marketing faculty. We claim that the financial and accounting skills are particularly important as firms shift toward customer oriented organizational forms as innovations are needed in information, accounting, and reward systems in order to produce the desired results. However, two problems arise. First, the traditional functional paradigms in other business disciplines often prevent faculty from developing the needed knowledge to effectively teach students how to operate in organizations with blurred boundaries across functions. Second, traditional ways of allocating courses to academic departments make it difficult to encourage and reward faculty who participate in jointly taught classes. Changes in the internal organization of business school may be needed in order to facilitate the types of teaching needed to develop tomorrow's business leaders.

Conclusion

In this paper we have reported on key changes occurring in selected organizational areas and argued that there is a fundamental shift taking place toward customer-focused organizations. We have identified typical changes firms make as they movetoward customer-focused organization structures (see Figure 3) and have identified key implementation challenges these firms face. Changing the organizational structure is not sufficient -- there is also a need to make changes to information and accounting systems, to change personnel policies, and to adapt the overall corporate culture in a way that supports this transition. These changes cannot be made within marketing and sales alone -- they require the active participation and support of senior managers in the firm. We believe that those firms that move toward becoming more customer-focused will be those which will lead their industries in the 21st century.

As a final word, we believe that current marketing paradigms over-emphasize individual consumer decision making and modeling of various components of the marketing mix and under-emphasize organizational issues in marketing. While researchers since the early 1980s have noted the difficulty in tackling complex, strategic, organizational issues within existing marketing paradigms (e.g., Arndt 1983; Biggadike 1981; Day and Wind 1980; Webster 1981), we concur with statements of well-known scholars that the marketing field has been slow to change (Day 1992; Montgomery and Webster 1997). In closing, we believe that the topic of marketing organization is clearly becoming a central research topic in our field and that applying concepts from organization theory and strategy to marketing organizational issues holds great promise for the future.

Footnotes

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[1] Given our focus on fundamental changes in how firms organize their marketing efforts, it is necessary to clarify what is meant by marketing. Workman, Homburg, and Gruner (1998) classify marketing organization research as taking one of three perspectives of marketing. Studies that take an activity-based perspective of marketing (e.g., Day 1994; Webster 1992) emphasize activities traditionally considered marketing activities and do not explicitly consider which groups perform these activities. Studies using a functional-group perspective of marketing (e.g., Anderson 1982; Buell 1975) primarily focus on the organization of the marketing and sales groups but do not systematically consider which activities are performed by which functional group. Integrative studies (e.g., Hutt and Speh 1984; Tull et al 1991) consider both activities and functional groups. In this paper, we follow this third perspective and provide an integrative view of changes occurring in the way organizations organize and perform their marketing activities. It is worth emphasizing that firms tend to split out responsibility for marketing and sales activities into separate organizational units. Therefore, when discussing *organizational issues*, we refer to "marketing *and* sales organization" since it is common to observe separate units performing the marketing activities and the sales activities (Cespedes 1995; Workman, Homburg, and Gruner 1998).

[2] The authors thank Gary Armstrong, Michael Hutt, Philip Kotler, Bill Perreault, Frederick Webster, and Bart Weitz in the United States and Manfred Bruhn, Hermann Diller, Hans Georg Gemünden, Richard Köhler, Heribert Meffert, and Günter Müller-Stewens in Germany for providing their perspectives on key changes in various dimensions of marketing organization.

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