



MARKETING OUTLOOK

2007

INTRODUCTION

My main goal is to enhance internal perception of marketing effectiveness by implementing more formalized procedures, and becoming more strategic and systematic in our pursuits.

– ARCHITECTURE,
ENGINEERING &
CONSTRUCTION

The year 2006 was a time of major transformation for many marketing organizations – and CMOs were the primary agents of change. Challenged as never before to instill new disciplines, skills and focus in their organizations, top marketing executives responded aggressively by shaking up internal departments, hiring new talent and skill sets, jettisoning underperforming agencies and bringing new metrics and measurability to programs and initiatives. This climate of change continues in 2007 as executives make further changes to upgrade organizational effectiveness, strengthen customer engagement and achieve even greater measurability.

Those are among the findings uncovered by the Chief Marketing Officer (CMO) Council in its 2007 Marketing Outlook survey. The study was designed to identify key trends from 2006, and capture insights and opinion about where and how marketers are focusing their efforts in 2007. Fielded in the fourth quarter of 2006 to 350 top marketers, the study's findings

show that most top marketers had no interest in gathering moss or paying homage to the status quo last year.

TOP 10 CHALLENGES FACING MARKETERS IN 2007

Marketers look at measurement, improved efficiencies and customer knowledge as top challenges.

- ① Quantify and measure the value of marketing programs and investments
- ② Improve the efficiency and effectiveness of the marketing organization
- ③ Grow customer knowledge, insight and conversations
- ④ Improve the allocation and ROI of marketing spend
- ⑤ Extract greater value and profitability from customer relationships
- ⑥ Increase credibility, influence and perceived value with senior management
- ⑦ Develop competencies, business knowledge and strategic alignment of marketing functions and external assets
- ⑧ Better capture, convey and deliver a clear value proposition to all channels and audiences
- ⑨ Advance alignments and linkages with business groups, field sales marketing and channel organizations
- ⑩ Establish a global organizational structure that best delivers results, accountability and measurability

Since its inception, the CMO Council has been in a unique position – able to access the leaders in marketing to gauge current pain points and challenges, while looking down the road to see the challenges and trends ahead. Through the implementation of the Marketing Performance Measurement (MPM) Forum and the Mastering MPM Online Certificate program, we have long recognized the inherent shift taking place in marketing – this moving away from the staid and traditional functional tasks of the field, and toward a

streamlined, diverse, multi-level nimble organization based on customer engagement and attachment, and ruled by tangible measures and metrics that deliver definitional value to the effectiveness of the marketing organization.

TOP 10 AREAS OF SPEND IN MARKETING AUTOMATION

Marketers are looking at performance measurement dashboards most in terms of automation solutions.

- ① Marketing performance measurement dashboard
- ② E-mail campaign management
- ③ Lead generation qualification or reactivation
- ④ Customer relationship management
- ⑤ Customer intelligence and analytics
- ⑥ Sales and marketing integration tools
- ⑦ Viral word of mouth
- ⑧ Marketing resource/process management
- ⑨ Customer networking and affinity building
- ⑩ Loyalty and rewards

progress to make to fully realize their potential as a growth machine for the company.

As you'll see, many of the top-line Marketing Outlook findings bear this out:

- Marketers are extensively overhauling their organizations to prove value and drive results. Their No. 1 accomplishment in 2006 was the restructuring and realignment of marketing to better support sales and drive demand generation (45.7 percent). However, chief marketers are still consumed with brand image, focusing on those activities, as shown by the No. 2 and No. 3 accomplishments: brand image and visual identity overhaul (29.2 percent), and new branding and messaging platform (27.6 percent) respectively.
- The majority of marketers feel that their top goal in 2007 is to quantify and measure the value of marketing programs and investments (43.8 percent). This is followed closely by a desire to improve the efficiency and effectiveness of the marketing organization (38.7 percent) along with growing customer knowledge, insight and conversations (33.7 percent).
- There is, however, a disconnect between action and intention on the part of marketing leaders. On the one hand, marketers claim to do what they were hired to do by shaking up the organization in 2006, but they may be overlooking what they NEED to do to actually accomplish their goals in 2007. Few marketers cite the establishment of a global organizational structure that best delivers results, accountability and measurability (12.4 percent), working closely with the IT organization and sources of critical data inside the company (9.1 percent), and most surprising, deploying new solutions and hosted services (5.3 percent)—goals that would optimize marketing outcomes and processes.

As past studies by the CMO Council have demonstrated, chief marketers face intense pressure from bottom-line focused CEOs and demanding corporate boards to improve the relevance, accountability and performance of their organizations. This pressure can be gauged by the notoriously short tenure (less than two years) of the average CMO. In part as a result, the era of brand-centric marketing is giving way to a new breed of CMO who is more focused on measurable performance and business results.

But the results of the Marketing Outlook survey show us that old habits die hard. Marketing and its practitioners still have

- Top marketers are taking a long, hard look at their organizational resources... and clearly they aren't happy. A full 60 percent plan to add new skill sets and capabilities internally, and nearly half (47.5 percent for all respondents and 75 percent among larger companies with revenues \$500 million) plan to review and evaluate all current marketing resources.
- No agency relationship was safe, with more than 35 percent of marketers replacing their PR agencies in 2006, and 21 percent of marketers tossing their Web design and development agencies. Ad shops could breathe a little easier... they ranked No. 3. The top reasons for such churn? Simple: poor performance, lack of strategy and creative firepower and insufficient outcomes. The bloodletting will not stop in 2007. More than half of respondents plan to make further agency changes this year.
- Financial resources for marketing are increasing nicely: Nearly 65 percent of respondents forecasted increased 2007 marketing budgets—with close to 20 percent expecting an increase of 16 percent or greater—versus 15.1 percent who expected a budget decrease. About 20 percent expected no change.
- Public relations is becoming the halo for brand awareness, with more marketers investing in public relations services, programs and agencies. Tapped as the top area of spend for 2007, marketers are using PR to shape customer pre-disposition and generate critical brand awareness. Spend for Web sites, at No. 2, indicates the level of digital influence on today's marketing transformation. And it's a positive sign that branding is No. 3 in spend. With the religious fervor for measures and metrics, the core of branding and brand identity has not been lost. Instead, it has just taken a well-deserved back seat to accountability to both the C-suite and the customer.

TOP 10 REASONS MARKETERS CHANGED AGENCIES

Creative, quality and performance issues dominate the motivation to change agencies in 2006. Interestingly, "results" came in mid-pack.

1 Creative 2 Strategic 3 Quality of work 4 Performance 5 Effectiveness	6 Results 7 Value 8 Other 9 Budget restraints 10 Personnel issues
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The good news is that marketers are looking to become more and more relevant within the enterprise, through adding new competencies and capabilities around financial accountability, analytics and customer centricity. The CMO Council will monitor the progress with the second annual Marketing Outlook survey at the end of 2007, and through a variety of other research instruments.

Now, let's take a look at the detailed findings.

For 2007, I intend to broaden use of marketing drivers, drive innovation (including business models and both incremental & breakthrough solutions) and advance use of customer loyalty to drive action planning to further organic growth objectives.

— HEALTHCARE

DETAILED FINDINGS

Restructuring, Realignment Top Accomplishments

In 2006, marketers clearly made the effort to improve their organizations through major change, with the goal of driving more demand generation and improving alignment with sales. This ranked number one among CMO accomplishments in 2006, but even more so for larger companies: 76 percent of respondents from companies with revenues greater than \$500 million said this was among their top achievements. What's surprising is the low showing of marketing performance measurement, customer acquisition, retention and engagement strategies, and integrated tactical programs for field and channel groups.

What are the top three accomplishments your marketing organization has achieved this year?

Restructured and realigned marketing to better support sales and drive demand generation	45.7%
Overhauled brand image, visual identity, Web site and collaterals to better capture and convey value proposition	29.2%
Produced new branding and messaging platform to underscore differentiation	27.6%
Implemented new campaigns that significantly advanced the business	26.7%
Added important new internal resources	23.9%
Improved the yield and accountability of the marketing organization worldwide	21%
Orchestrated successful new product launches and go-to-market programs	21%
Better integrated tactical marketing functions with the field and channel groups	16.5%
Extracted customer data and analytics for more informed decision-making	15.6%
Built acquisition, qualification, conversion and reactivation programs to optimize close and retention rates	15.2%
Introduced a formal marketing performance measurement system	15.2%
Improved customer engagement through councils and communities	11.1%
Created efficiencies with new marketing automation solutions and hosted services	11.1%
Developed new channels of engagement using new and digital media	9.9%
Reviewed and realigned agency resources and consultants to increase value	8.6%
Other	5.8%
Created global campaign teams to implement fully integrated programs	5.3%

Proving Marketing's Value No. 1 Challenge in 2007

It's good to know that quantifying and measuring marketing's worth, improving marketing's efficiency and effectiveness, and better customer knowledge and touches are top of mind with marketers for 2007. These ranked highly as the top challenges for this year among respondents from companies of all sizes. Now marketers must address these issues.

What are the top three issues or challenges facing your marketing organization in 2007?

Quantify and measure the value of marketing programs and investments	43.8%
Improve the efficiency and effectiveness of the marketing organization	38.7%
Grow customer knowledge, insight and conversations	33.7%
Improve the allocation and ROI of marketing spend	28.4%
Extract greater value and profitability from customer relationships	24.2%
Increase credibility, influence and perceived value with senior management	23.0%
Develop competencies, business knowledge and strategic alignment of marketing functions and external assets	23.0%
Better capture, convey and deliver a clear value proposition to all channels and audiences	23.0%
Advance alignments and linkages with business groups, sales field marketing and channel organizations	21.0%
Establish a global organizational structure that best delivers results, accountability and measurability	12.4%
Move more functions, communications and processes to the Web	10.3%
Work more effectively with the IT organization and sources of critical data inside the company	9.1%
Deploy new solutions and hosted services that optimize outcomes and processes	5.3%
Other	3.7%

New Competencies, Capabilities Top Organization Priority

The majority of marketers are interested in maintaining the status quo: A full 60 percent of marketers plan to add new skill sets and capabilities, and nearly half (three-quarters from larger company respondents) plan to review and evaluate their current marketing resources.

What organizational realignments and restructuring do you plan in your marketing organization next year? (Check all that apply)



Marketers Strive for Integration, Realignment

In our open-ended question on operational priorities for 2007, many marketers stressed better integration internally with business functions such as sales, and externally with channel partners. Customer data and segmentation was also mentioned prominently. Here is a sample of comments:

What do you consider to be your marketing operational priorities for 2007?

"Work more closely across geographies and across business units."

– HR Consulting

"Integration of new inside sales and sales support function for consistency in messaging and brand perceptions – combined with operational excellence."

– Enterprise Software

"Pull back from the business of doing everything and concentrate on the important things."

– Higher Education

"Creating greater alignment with our sales organizations; secondary priorities are leveraging channel partners and operational employees across the business, as well as building greater efficiencies through hosted solutions and online media."

– Consulting Services

"Develop a brand platform to build equity in the corporate brand and position it for potential growth/expansion beyond the core industry and market; deliver demand and awareness generating programs on budget; support the organization with value-add strategic marketing and competitive insights."

– Semiconductor Equipment

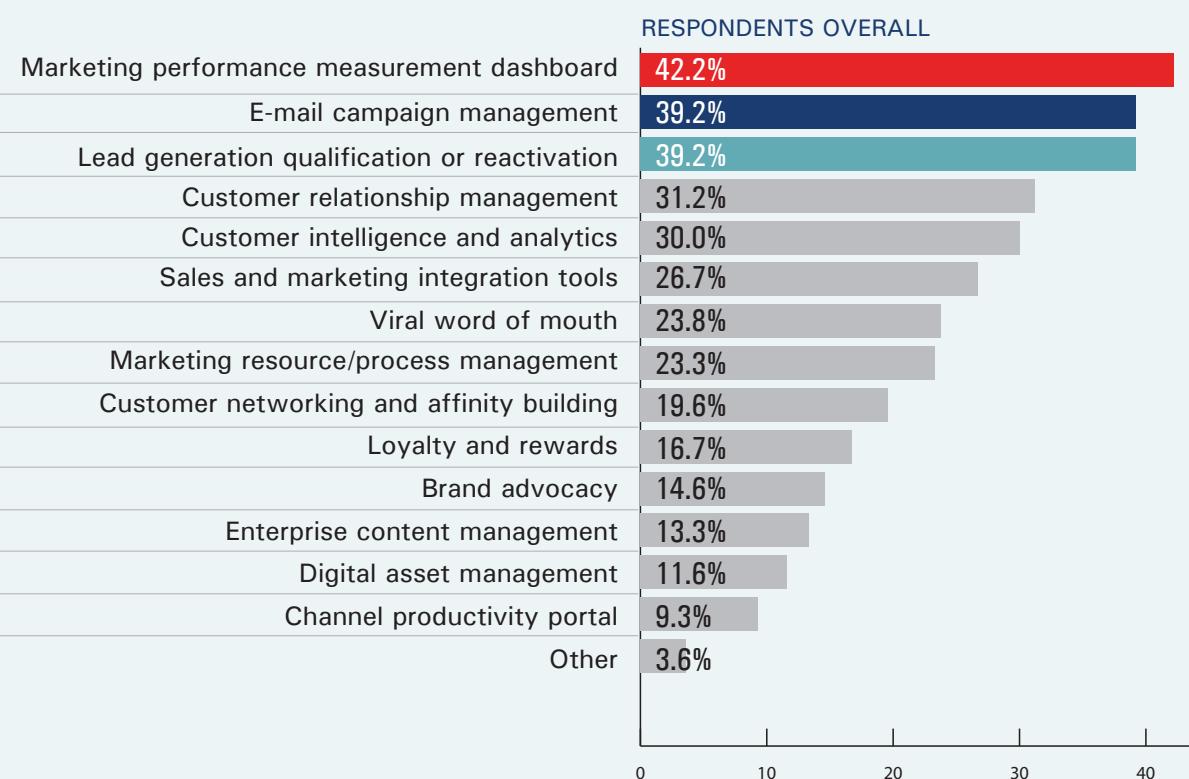
"Talk less and listen more; experiment with nontraditional methods (e.g., communities, social computing); and expand relationships with existing customers."

– Marketing

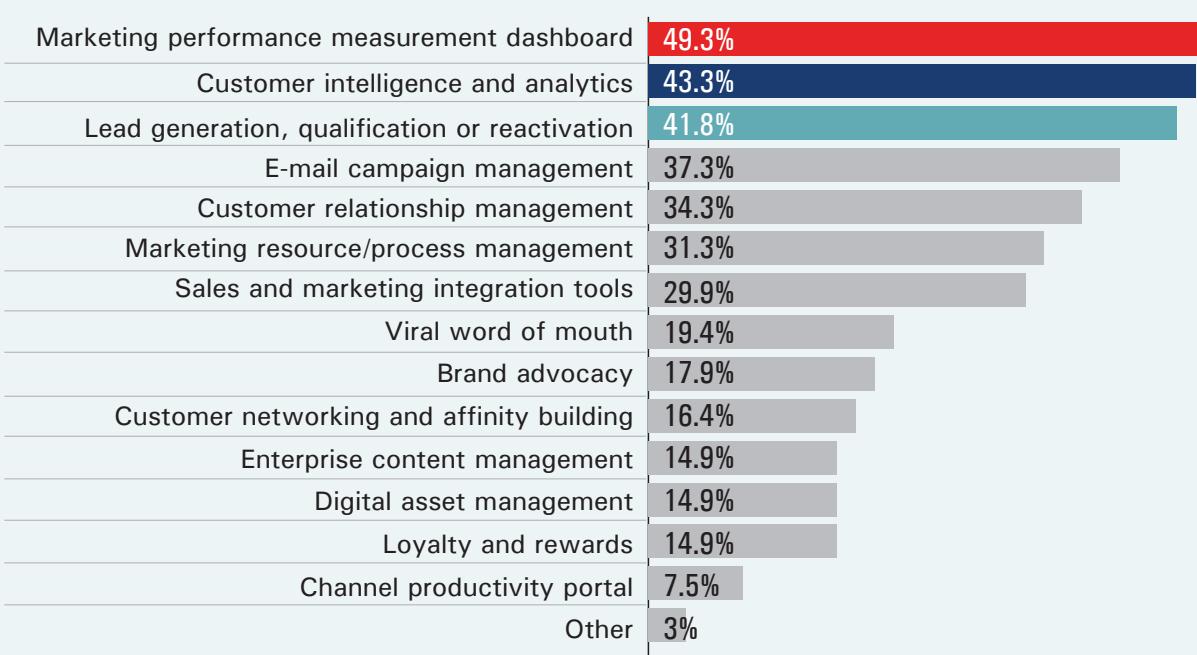
Dashboards Tapped as Top Automated Solution for '07

The measurability mandate can be seen clearly in the systems and solutions in which marketers will invest in 2007. Overall, our respondents tapped performance dashboards as the top automated solution to be deployed in 2007. Drilling deeper, in comparing respondents from large companies (more than \$500 million in revenues) versus small (\$500 million and under), large firms cite marketing performance dashboards as their top choice. Companies \$500 million and under, however, make e-mail campaign management solutions their top priority, with dashboards settling in the middle of the pack. It's clear that large companies are concentrating on driving ROI and growth, while smaller companies are looking for specific improvement in their e-mailing capabilities to drive demand generation.

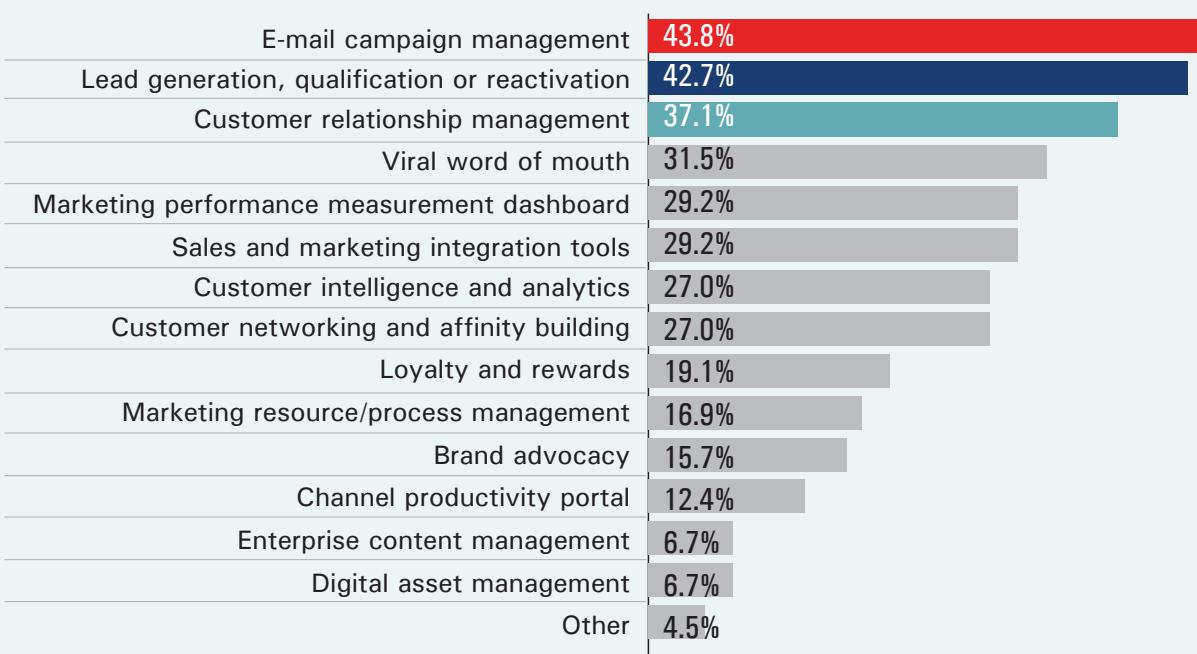
What marketing automation solutions or demand-generation services or measurement systems do you plan to add or deploy in 2007? (Check all that apply)



Companies with more than \$500 million in revenues



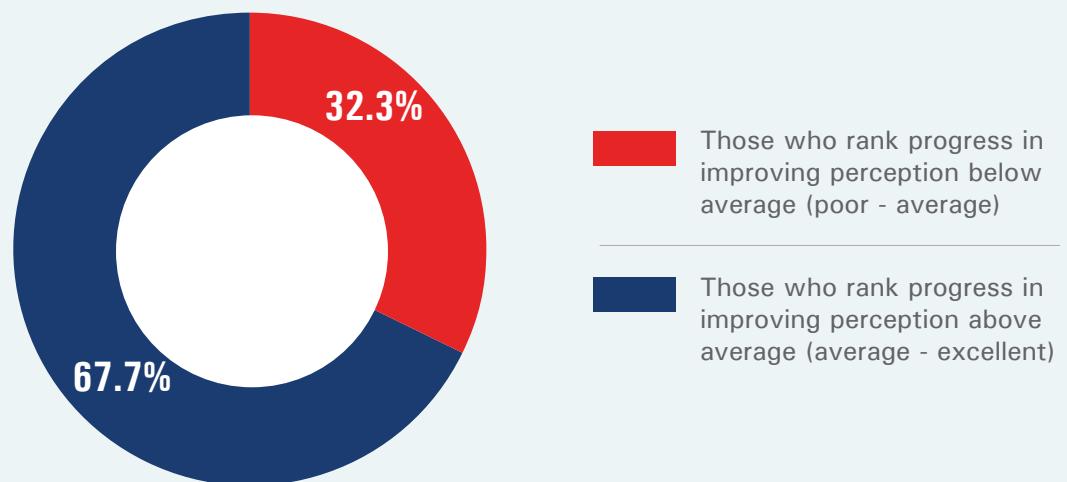
Companies with \$500 million or less in revenues



Marketers Rank Company Perception and Value High

A big majority of marketers felt they had made above-average progress in improving marketing's perception and value within the company. That deduction, however, may be inflated, considering only 15 percent had deployed formal marketing performance measurement systems in 2006.

What progress has your organization made this year in improving the perception and value of marketing within your company?



Measurement Systems Work

We asked an open-ended follow-up question about what marketing actions could be attributed to the improved perception and value. Many of the respondents who did improve that perception appear to have implemented performance measurement systems that enabled proof of marketing's value. Here are some of the answers:

If you have made significant progress this year in improving the perception and value of marketing within your company, to what do you attribute your progress?

"Deeper relationships with each of the business units, as a result of marketing director alignment."

– Media & Entertainment

"Deployed CRM system and integrated marketing campaigns; developed closed-loop lead generation process to determine marketing ROI."

– Software

"Metrics tracking and reporting both the success of the marketing programs and the visibility into the lead nurturing process as it relates to improving sales performance and deal closure."

– Call Center Solutions

"Building 'customer language' across the organization; bringing in new talent."

– Retail

"Establishment of a centralization process and a brand proposition that is effective across borders."

– Real Estate

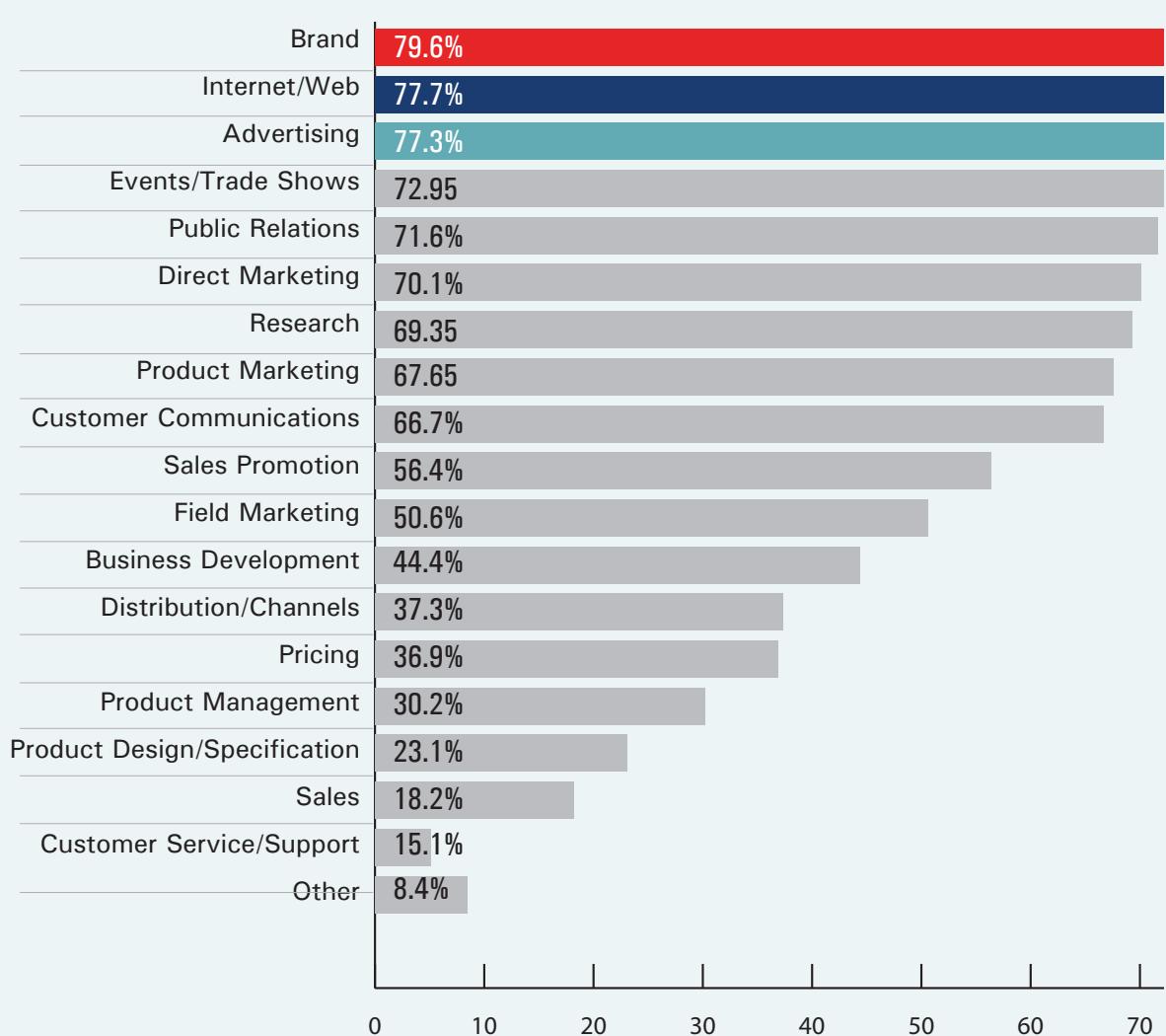
"Strong business results which outpace the competition on all metrics – due to superior product, marketing and in-store solutions. Also, our research and ROI tests support the effectiveness of our marketing strategies in driving incremental sales."

– Media and Entertainment

Span of Marketing Authority Grows

We were not surprised to see that traditional marketing functions still rest squarely within the sphere of authority of top marketers, which we expect it should. But we are also encouraged to see that other fields of oversight, including product design and specification, product management, pricing, distribution channels, customer communications, customer service and support, and even business development are also within the oversight of today's marketers.

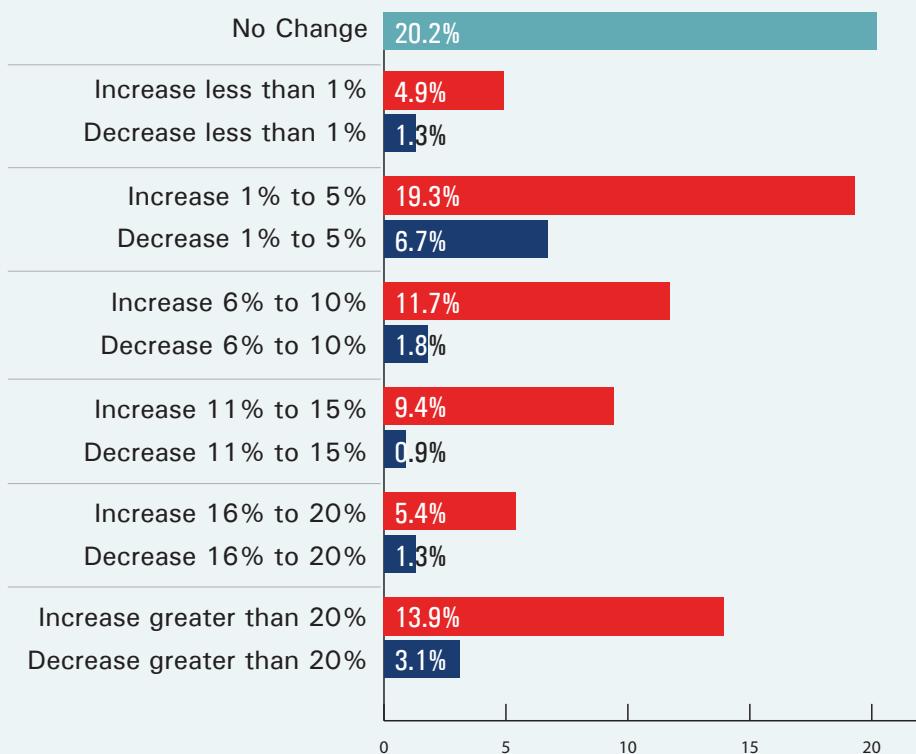
What is your current span of authority? (Check all that apply)



Budget Increases Expected, Some Rather High

There's a lot of responsibility and expectation on the plates of today's CMOs. At least for this year, there also will be larger budgets to achieve these goals. Nearly 65 percent of respondents expected a budget increase over 2006. Interestingly, almost 14 percent expected increases of 20 percent or more. That 20 percent was composed primarily of software, information technology, telecommunications and digital media companies.

What percentage budget change do you anticipate in 2007 over 2006?



Ad Agency Changes: The Year of Cleaning House

There's a clarion call here for all consultants and agency service providers: Don't get too comfortable. There was extensive turnover in agency relationships in 2006, with more than a third (35.7 percent) involving PR. Web design and development was No. 2, followed by the usual whipping post, advertising. The key reasons for the change, not surprisingly, involved creative, strategic, quality and performance issues.

Which agency relationships did you change this year?



If you made agency changes in 2006, please indicate the key reason for change.



Agency Turnover to Continue for 2007

More than half of all respondents plan to make additional agency changes in 2007; but then again, it's hard to predict the success of an agency – client relationship.

What agency changes do you plan to make in 2007?



Peers Top Most Trusted Source for Insight and Advice

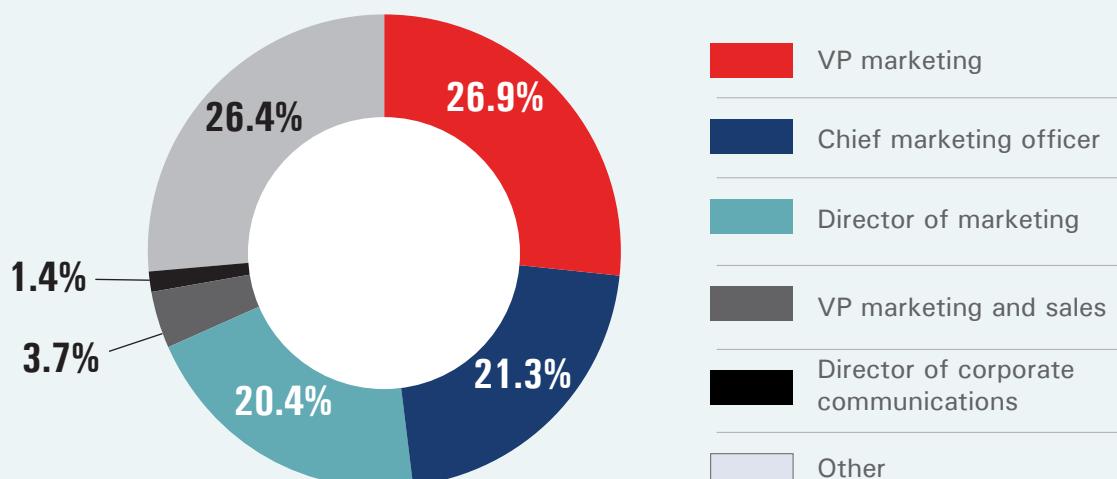
When marketers look for insight, counsel and advice, their most trusted sources are peers and associates. We at the CMO Council, who are dedicated to providing a meaningful peer networking experience, are gratified by that sentiment. Apparently, more expensive resources have less pull than no-cost associations and old-fashioned networking.

What channels or resources do you consider to be the most trusted and authoritative providers of marketing insight business information or management advice? (Check the top three)

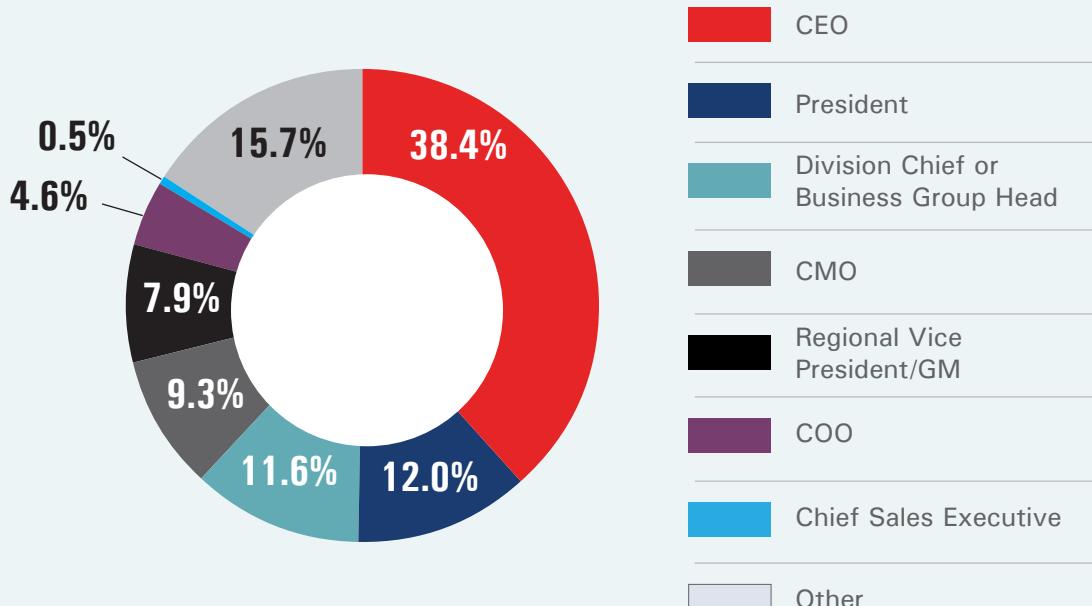


DEMOGRAPHICS

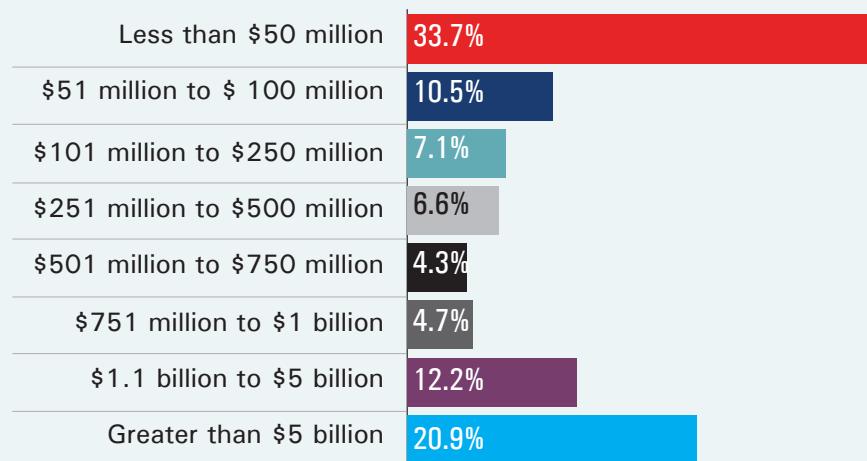
What is your title?



To whom do you report?



How large is your company?



In which regions of the world does your company operate?

